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IMPACT OF CHANGES IN THE TELECOMMUNICATIONS INDUSTRY ON SMALL BUSINESS
(Part 3)

HEARINGS

BEFORE THE

SPECIAL TASK FORCE ON THE IMPACT OF
TELEPHONE COSTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

WASHINGTON, DC, SEPTEMBER 25, 1984; AND NASHVILLE, TN,
OCTOBER 19, 1984

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IMPACT OF CHANGES IN THE TELECOMMUNICATIONS INDUSTRY ON SMALL BUSINESS

(Part 3)

TUESDAY, SEPTEMBER 25, 1984

House of Representatives,
Special Task Force on the Impact of Telephone Costs,
Committee on Small Business,
Washington, DC.

The task force met, pursuant to notice, at 9 a.m., in room 2359-A, Rayburn House Office Building, Hon. Ron Wyden (chairman of the task force) presiding.

OPENING STATEMENT OF CHAIRMAN WYDEN

Mr. **Wyden**. The task force will come to order.

Today we are going to focus on what some have begun to call the bogeyman of telephone pricing: The so-called bypass issue. At issue is whether, with phone rates on the rise, major corporations are going to begin setting up their own phone systems—thereby bypassing the network and reducing the amount of revenue the phone companies will receive.

One thing is clear: Bypass exists. A number of major companies, including some in my own State of Oregon, have chosen to set up their own phone systems for at least a portion of their operation. In the days ahead, other companies will undoubtedly do likewise.

What is not clear, however, is whether bypass is driven by rising rates or by service needs. Based on the data I have seen to date, as well as my experience with the major employer in my area, I am inclined to believe that companies are more likely to bypass for service reasons than cost.

Many also believe it is unlikely that companies will begin bypassing the network en masse. After all, setting up one's own phone network is a very expensive proposition, and one which companies will not undertake lightly.

Whatever any of the task force members or others might think, it is clear the bypass issue needs further investigation. During the three prior hearings this task force has held here and around the country, this subject has come up again and again.

Proponents of access charges for business and residential customers say these charges are needed to allow long-distance rates to be reduced so that companies will not bypass the network. If these companies do bypass, these people argue, phone companies will have to raise the rates for all those still on the network to make up for the loss in revenue.

Opponents of the residential/business access charges, however, argue that there is no evidence to support this claim and that access charges will add to the cost burden of those phone customers least able to pay.

I look forward to hearing from our witnesses on both sides of the issue. Due to scheduling problems for some of our witnesses, the main bypass panel will be during the afternoon session.

In the meantime, however, we will take up some equally important issues relating to the repricing of the telephone system. Among these is measured service, under which phone customers would have to pay for local phone service much the same way they now pay for long-distance service—based on length of call, time of day, et cetera. The particular measured service system proposed recently in my own State of Oregon was opposed by many small businesses, which argued that it would cause their rates to rise astronomically. Other States, however, have measured service plans that witnesses at our hearings have said work well. Today we will hear from an economist as well as from consumer and business groups that have strong feelings about this matter.

Also up for discussion today are some of the special problems faced by rural and small telephone companies in the new deregulated environment.

Over the past 4 months, the task force has gained a good deal of insights into the impact on small businesses of changes in the telecommunications industry. I expect today's hearing to be equally informative.

And at this time I want to recognize my colleagues on the task force, I appreciate their great interest in the subject and recognize them for any comments they would like to make.

The gentleman from Louisiana.

OPENING STATEMENT OF HON. BUDDY ROEMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. **Roemer**. Thank you, Mr. Chairman.

I want to say briefly how pleased I am to continue being involved in the hearings and how my perspective hopefully will improve on the problem as I learn more about it.

I have a feeling that deregulating is like the Lord, it gives and takes away. I have a feeling, as I study it on some critical services like the phone, that it takes away more than it gives. Maybe I am wrong. That is why I am here.

Thank you, Mr. Chairman.

Mr. **Wyden**. The gentleman makes a thoughtful comment, as usual, and I want him to know how much I appreciate him being interested and involved in the issue.

The gentleman from Iowa.

OPENING STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. **Bedell**. Thank you. First I want to commend you, Congressman Wyden, for your leadership in this effort and for the fact that we are having these hearings. Certainly it is extremely important that we get things out to the public so the people know what the problem is.

It appears to me that divestiture has accelerated a number of trends that impact small telephone companies: An increasing paperwork burden, equal access requirements, and depreciation schedules. My concern is that the combination of these pressures may make it very difficult for small telephone companies to keep up with regulatory and technological changes taking place in the industry.

I am also concerned about the impact that the local measured service [LMS] rate structure proposals will have on the elderly, low income, and handicapped persons, as well as the social service agencies which help these groups.

The impact of the access charge decision is expected to be especially hard on rural telephone users, both residential and small business. I fear that most rural small businesses will not feel any benefit from the access charge, and in fact will have to make up for the additional charge by passing along the cost to rural consumers.

The FCC's decision to fix telephone company depreciation schedules will further escalate local telephone rates, making basic telephone service a heavy financial burden for rural areas.

Also, I have yet to be convinced that the access charge will indeed discourage bypass.

These are all areas of great concern to me, and I hope that in the hearing today we can address these issues which have such serious implications for large segments of this country's population.

I thank you, Mr. Chairman.

Mr. WYDEN. I thank the gentleman for an excellent statement. He has been a very strong advocate of small business during his tenure in the Congress, and I am particularly pleased that there is someone on the panel who wants to focus on the needs of rural phone users and rural small telephone companies. I want to just say I appreciate the gentleman's participation as well.

Congressman Roth who is also on the committee could not be here today, but we will insert into the record at this point his opening remarks. Likewise, we will insert one by Congressmen Bilirakis and Weber who could not attend.

[Congressmen Roth, Bilirakis, and Weber's opening statements with attachments follow:]

OPENING STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman, I would like to submit for the review of the task force information from a fact finding forum that I held in Green Bay, WI, on Friday, September 14. This forum discussed the impact that telephone access charges are having on small business.

Congressman Vin Weber and I heard valuable testimony from small businessmen from throughout northeast Wisconsin, their organization representatives, the major telephone companies in the State and the Wisconsin Public Service Commission. There was a large turnout and we can all conclude from that, that this is a very important issue in the Midwest and I suspect, throughout the Nation.

The written testimony and a summary of the oral testimony that I will be submitting clearly points to an important conclusion; further review of access charges is necessary. Small business is adversely affected by their implementation and there is a fear as to where they will ultimately lead. We need to investigate this problem thoroughly and act swiftly to prevent undue hardship for small business. It is necessary to act, not simply react, to the growing challenges that the divestiture of AT&T are presenting us.

I found it extremely helpful to hold a hearing in the Midwest. Clearly this is an issue which is of deep concern to business in America's heartland.

SUMMARY

On Friday, September 14, 1984, Congressman Toby Roth conducted a fact finding forum in Green Bay, Wisconsin on the impact telephone access charges are having on small businesses in northeast Wisconsin. Congressman Roth delivered opening remarks stating his concern over the effects of access charges.

Accepting testimony with Congressman Roth was The Honorable Vin Weber, Member of Congress from Minnesota's Second Congressional District. Mr. Weber noted that there was a great deal of confusion in Congress on this issue. He stated his satisfaction that this issue had been brought to a rural, upper Midwestern area to get local views on this national subject.

PANEL I

This panel consisted of representatives of phone companies serving Wisconsin. Mr. Ray Riordan, Executive Vice President of the Wisconsin State Telephone Association, an organization representing Wisconsin's independent, local carriers, declared the term "access charge" to be a misnomer. He explained the necessity of the access charge to recoup nontraffic sensitive costs.

This opinion was shared by Mr. Dan Griffith, Assistant Vice President of Wisconsin Bell, local carrier for two-thirds of Wisconsin's telephone business. Mr. Griffith declared Wisconsin Bell's commitment to universal service and stated that the access charge must be looked on as a recomputation (where some will pay more and others will pay less), not an increase, in telephone costs.

Mr. Lynn Meyer, Assistant Vice President of Wisconsin AT&T Long Distance, informed the audience that his company welcomed competition. However, he shared his concern for bypass operations that he says are practiced by 40 to 50 companies in Wisconsin. He also stated that AT&T pays its own access charge to the local carrier.

PANEL II

This panel consisted of a number of small business representatives from northeast Wisconsin, who spoke from the floor sharing their concerns and questions. Highlights from this testimony includes: Mr. Fritz Jaeger of Aerial Company of Marinette, complained that his phone bill was up 20 percent and wanted to know where that money was going; Mr. John Herner of Appleton understood the need for funding to replace the internal company subsidy, but questioned the use of access charges; Mr. Roland Murphy, of Roland Murphy Construction of Green Bay, viewed the breakup of AT&T as the root cause of the problem and also questioned the phone company's efficiency in disposing of capital equipment; Mr. Hugh Begy of Appleton spoke on complications which have arisen concerning computer access through phone lines since the charge was instituted.

Further highlights include: Mr. Mike Sullivan of Spring-Green Lawn Care of De Pere believed he was being charged more than his fair share. He was also of the opinion that new technology should be lowering, not raising, his phone bill. Mr. Lewis Konop, of Konop Vending Machines, Green Bay, emphasized the confusion that currently surrounds each phone bill. Few even know what part of each bill is for access charges. He also spoke on the necessity of the telephone for the small businessman. As a single line telephone customer, Mr. Marvin Roth, owner of Dave's Burger Shanty in Menasha, spoke of his concern that the present access charges are only the tip of the iceberg.

The turnout of these and other local businessmen and women with similar concerns clearly points to the conclusion that the small business person is clearly affected by these charges.

PANEL III

Due to a change in schedule, Mr. Nes Flores, Chairman of the Wisconsin Public Service Commission, was called upon to make his statement prior to the business organization representatives. Mr. Flores commented on Wisconsin's commitment to the small businessman. He also declared that farmers would be affected by the breakup of AT&T. He stated his opposition to flat rate end user fee. He informed the audience that the Wisconsin Public Service Commission had appealed the Federal Communications Commission access charge to the Supreme Court. He also described the Wisconsin intrastate plan which includes no end user charges. He also dealt with the changing method of depreciation, stating that the FCC had made it easier to recover these costs.

PANEL IV

The final panel included two representatives from Wisconsin business organizations. Ms. Georgia Thomas, Vice President of Cardinal Express Corporation in Racine, is Secretary of the Wisconsin Women Entrepreneurs. Ms. Thomas stated that it was obvious that costs have steadily gone up since 1981 and although the initial monthly access charges are small, they will undoubtedly steadily increase. Another concern which she shared was that the majority of small businesses are calling long distance within Wisconsin rather than interstate.

Mr. Bill Smith, Director of Government Relations for the Wisconsin chapter of the National Federation of Independent Business, stated his belief that access charges have a severe negative impact. Telephone costs were ranked number 6 by Wisconsin NFIB members in terms of priority out of a possible 72 small business problems. Over 60 percent of small businesses have more than one phone line. Nearly two-thirds of the members reported that less than half of their phone bills were long-distance charges. He emphasized the need to rescind access charges so that they can be studied more completely.

In concluding, Congressman Roth and Weber asked a number of questions of the witnesses and stated their intention to share what was learned at the forum with their colleagues on the Telephone Task Force in Washington.

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, I have received from Mr. Ronald Clark, Vice President of the Time, Weather, Temperature Advertising Company in Tampa, an outlihe of how access charges will affect this innovative new small business, which provides a public service.

Mr. Clark's company has responded to a need created by divestiture and at the same time created an innovative advertising medium. However, this small business will be adversely affected by access charges.

Mr. Clark's comments are worthy of the attention of the members of this task force and I request that his correspondence be included in toto in the hearing record.

OPENING STATEMENT OF HON. VIN WEBER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

I appreciate again the opportunity to hear the concerns voiced about the effect access charges will have on small business. Like earlier hearings, I want to focus my attention on the particular needs of rural small business in a deregulated telecommunications industry.

I continue to hear from small businesspeople in Minnesota that Congress should address the whole telecommunications issue fairly. Some are afraid that rural small business will be left out of the decision-making process when members of the House and Senate legislate this issue. I don't want to see that happen.

I want to thank Task Force Chairman Ron Wyden and other members for the opportunity to address the concerns of small business on this most important issue.

Mr. WYDEN [continuing]. We have a very interesting set of witnesses this morning and a long schedule, so we will begin with panel 1, Hon. Frank S. Swain, Chief Counsel for Advocacy, Small Business Administration.

Mr. Swain, we are very happy to have you. Let me say, we will make this the rule of the day, we will make any prepared remarks you have a part of the record, and if you would, because the schedule really is very long and we want to finish up before breakfast tomorrow, if you could just highlight some of the principal concerns you have, and we will make your prepared statement a part of the record.

TESTIMONY OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, SMALL BUSINESS ADMINISTRATION

Mr. Swain. Thank you very much, Mr. Chairman, and my congratulations to you and the members of the task force for your interest in this critical issue, and allow me to say as an aside that I believe that this is one of the most useful ways that the Small Business Committee functions. Many people say to me, "Well, the Small Business Committee just legislates on the SBA."

I think it absolutely critical that the Small Business Committee use the opportunity it has for hearings to shed light on some critical issues, critical issues that are many times ultimately determined in many forums, many other forums, but when they are determined, sometimes there is no particular thought given either before or during or after the decisions are made to the impacts that these decisions have on small businesses. And so I think that it is absolutely essential that the task force has been digging into the issue the way that it has, and we look forward to continuing to work with the task force.

As you suggested, I will attempt to summarize my statement, it is fairly brief, and I will go through it quickly.

Like everyone else, small businesses are trying to adjust to and understand the restructuring of the telecommunications industry brought on by the divestiture of AT&T. The Office of Advocacy has been very active in the debate that has centered around the AT&T divestiture and the pricing of telephone services.

We have consistently stated that the divestiture of AT&T is something that is not only good for the consumers of telephone services, both business and residential, but it is also good in terms of future business opportunities for small firms in or entering the telecommunications industry. During this present transition period from subsidized to cost-based pricing, we must not forget that the goal of divestiture is to bring about a closer balance between cost increases and decreases so that dramatic increases in phone service costs could be avoided and universal service preserved.

Thus, access charges, which are only one of many factors in the restructuring formula, should in the future be counterbalanced by decreases in interstate long-distance toll charges. Some small businesses, especially those that are heavy users of long-distance service, will eventually see decreases in their overall phone service expense.

Therefore, it is incumbent upon this task force, the Federal Communications Commission, State public utility commissions and others active in the restructuring effort to monitor the Bell Operating Co's., AT&T, and other long-distance services to see that savings realized as a result of cost-based pricing are passed on as they become available. Divestiture should under no circumstances be misused to extract unjustified or excessive fees from small business end users.

In other words, I think that the divestiture should basically result in revenue neutral effects. If access charges are increased a little bit here or there, then there should be other savings passed on, and I think that FCC and all the other players have to bear in mind that they have to keep everything in counterbalance, that changes that have been made by the court cannot be used as an excuse just to increase everything without some counterbalancing decreases.

The impact of divestiture has been felt at many levels. Of course, the committee has much testimony on this specifically. But in addition to that, a number of State public utility commissions have also instituted intrastate access charges at this time, and most of the States must also resolve requests from the Bell operating companies for rate increases.

In addition, small businesses have to cope with higher charges for directory assistance, private lines, installation, repair and service options.

Thus, it becomes clear that the FCC interstate access fee decision is only one of at least three factors that will result in significant phone service charge increases. Increases in the form of intrastate access fees and higher priced service options clearly have the potential for exceeding total interstate access charges.

In other words, if people are concerned about the extra $2 per month or $6 per month that they may have to pay as a result of the access fee proceeding, I think they will really be very mad when they see the applications that have been made to some of the State PUC's for rate increases involving other segments of phone service.

The key issue is to balance the increased charges with positive aspects to the AT&T divestiture. Divestiture has already resulted in lower priced long distance and equipment options for small business and has brought new opportunities for small interconnect companies, equipment suppliers, and long-distance resale suppliers. As the new telecommunications industry matures, additional opportunities for smaller concerns should become available.

The Office of Advocacy has been a participant in most of the proceedings since April 1982, relating to the restructuring debate, when we filed a brief with the court. Our participation has been intended to reflect the interests of small business by assuring that this important segment of our economy assumes no more than its fair share of the responsibility for supporting our new, deregulated and cost-based telecommunications industry.

The purpose of the Federal Communications Commission's access charge decision was to end the long-distance subsidy of local plant costs. The Commission's plan, which exempts single-line businesses and residential users from the fees at this time is viewed as unfair by many small business owners and, moreover, represents an abandonment of the cost-based pricing principle. Cost-based pricing in this instance will operate successfully only when all users of the local network meet their support obligations in a fair and equitable manner.

Exempting large segments of users, such as all residential consumers, from sharing these obligations places an unfair burden on the Nation's small businesses and the others left to assume the financial responsibility for maintaining the Nation's telecommunications network. Or, putting it another way, if I have a business in my house and I have two lines into my house, and the person next door has two lines into his house because his children talk a lot on the phone, it costs the telephone company the same to service both of our houses, but I am going to have to pay up to $12 a month more, and he is not going to have to pay anything more because his lines are residential and mine is a small business line. I don't see any reason for that differentiation in the rate structure at all.

The Commission's decision to define small businesses as those with only one telephone line points out a flaw of many of the important restructuring related decisions. The flaw is the absence of substantiating data.

Many people asked, "Well, what about the one-line exemption, won't it help everybody, or isn't it the wrong place to draw the line?" We tried to find the answers to that, not only through our own investigation, but we brought in consultants in telecommunications and asked them to work with several State PUC's and other sources of information to find out some very direct answers to some very simple questions, such as: What is the telephone line distribution among small business; how many small businesses have one, two, or three lines; how many of the local users accounted for small business as opposed to large business; how much of the total long-distance usage is accounted for? No answers.

The testimony lays it out in more detail, but basically there is no answer available from the FCC because they don't have the information, at least haven't chewed it up in that fashion. I am sure that the operating companies have the answers, and they could certainly produce them to the FCC. They chose not to produce them to us. We don't have subpoena power to compel that.

State PUC's do not have the answers. They are going to have answers because they are going to be asked, every State in the Union is going to have to pass on some variation on rate requests and service option requests. The very basic information on who is using the phones and how much it costs, which is really the critical question in the debate over whether there ought to be an exemption or a phase-in on the access charge, and I will think would be a critical question as we continue to get into the question of the impact of the deregulation on small firms or rural users, those critical questions don't have answers at this point.

So in our testimony, our main point, or one of our main points is that we really think that the FCC and the other parts of the Government, both State and Federal Government, that are involved in passing on these decisions and making these decisions, really needs to get more information about who is using the phones and how much it costs before they impose all of this other level of charges on everyone, whether it is through access charges or increases in intrastate rates or increases in basic local service rates.

The absence of information is important not only for the difficulty it presents in evaluating the small business impact, but also for its effect on the credibility of the claims of importance of subsidies in inadequate revenue collections on the part of the basic operating companies.

In other words, I don't think that, at least our office isn't smart enough to say whether there ought or ought not to be access charges. The bottom line is that the telephone companies, I don't think, have proven their case adequately. That is why there is a lot of objections, certainly a lot of questioning to the issue.

Therefore, I suggest that one of the priorities of this task force should be to take steps to assure that the Federal Communications Commission and others with key responsibility for reshaping this industry make decisions only after they have all the facts. After compiling such data, it would be possible to make some rough projections as to the number of businesses with one, two, three, et cetera, lines.

As a first step in assuring equity in a final access fee plan, the FCC and State public utility commissions must carefully scrutinize all information submitted by the Bell Operating Co. and AT&T in order to guarantee that the final fees are no higher than absolutely necessary to provide phone companies with a fair profit. Acceptance of the need for access fees would be greater if those who pay them were confident that they were not paying artificially inflated charges resulting from incomplete disclosures or misguided Government action.

The task force should also use this opportunity to help clarify pricing policy in order to assist in providing a model for those States engaged in setting local and intrastate access fees. The State regulatory agencies will no doubt look to the FCC and this task force for guidance or signals as to how these policy issues should be treated at the intrastate or local levels. The PUC's must be counseled to consider the cumulative burden of the fees and higher service costs on small businesses.

Finally, and most importantly, an equitable access fee system is impossible if large segments of the telephone user population are exempt from the obligation to pay the access fee—to pay their fare share. Therefore, I oppose such exemptions, cost-based pricing should stand for the proposition that there is no free lunch. Cost-based pricing means that telephone customers will benefit from a competitive market and pay only for the service they actually use.

The subsidized system will soon be part of history. Any access fee structure that would require small businesses to subsidize other users would violate both the spirit and purpose of cost-based pricing and the movement toward deregulation of the telecommunications industry.

Thank you, Mr. Chairman. I would be happy to try to respond to any questions.

[Mr. Swain's prepared statement follows:]

PREPARED STATEMENT OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, SMALL BUSINESS ADMINISTRATION

Good Morning. I appreciate the opportunity to provide the Special Task Force on Telephone Service with the views of the Office of Advocacy on the impact of the AT&T divestiture and industry restructuring on the small business community.

Like everyone else, small businesses are trying to adjust to and understand the restructuring of the telecommunications industry brought on by the divestiture of AT&T. The Office of Advocacy has been very active in the debate that has centered around the AT&T divestiture and the pricing of telephone services. We have consistently stated that the divestiture of AT&T is something that is not only good for the consumers of telephone services -- both business and residential -- but is also good in terms of future business opportunities for small firms in or entering the telecommunications industry. During this present transition period from subsidized to cost-based pricing, we must not forget that the goal of divestiture is to bring about a closer balance between cost increases and decreases so that dramatic increases in phone service costs could be avoided and universal service preserved. Another purpose behind divestiture and the move to cost-based pricing was to decrease or check the potential problem of cross subsidies, which were present at times under the market circumstances that existed prior to divestiture.

Thus access charges, which are only one of many factors in the restructuring formula, should in the future be counterbalanced by decreases in interstate long distance toll charges. Some small businesses, especially those that are heavy users of long distance service, will eventually see decreases in their overall phone service expense. Therefore, it is incumbent upon this Task Force, the Federal Communications Commission, state public utility commissions and others active in the restructuring effort to monitor the Bell Operating Companies, AT&T, and other long distance services to see that savings realized as a result of cost-based pricing are passed on as they become available. Divestiture should under no circumstances be misused to extract unjustified or excessive fees from small business end users.

The impact of divestiture has been felt at many levels. Small businesses with more than one telephone line began paying interstate access fees of up to $6.00 per line in May of this year. A number of state public utility commissions (PUCs) have also instituted intrastate access charges at this time; most states must also resolve requests from the Bell Operating Companies (BOCs) for rate increases. In addition, small businesses have to cope with higher charges for directory assistance, private lines, installation, repair and service options. For instance, the Montana Public Service Commission recently announced plans to mirror the interstate access fee plan for state purposes. Nationwide, users of private lines will soon begin paying a monthly $25.00 surcharge. And, finally, the Chesapeake and Potomac Telephone Company recently requested permission to charge business customers a monthly fee of $8.97 to $10.91 for service plus an additional 7.4 cents per call.

Thus, it becomes clear that the FCC interstate access fee decision is only one of at least three factors that will result in significant phone service charge increases. Increases in the form of intrastate access fees and higher priced service options clearly have the potential for exceeding total interstate access charges. Therefore, it is important that this Task Force not ignore what will be happening at the state level by focusing too narrowly on the interstate proceedings. The immediate ability of most small firms to pass this rapid increase in utility costs on to their customers is unclear. The key issue is to balance the increased charges with positive aspects to the AT&T divestiture. Divestiture has already resulted in lower priced long distance and equipment options for small business and has brought new opportunities for small interconnect companies, equipment suppliers, and long distance resale suppliers. As the new telecommunications industry matures, additional opportunities for smaller concerns should become available.

The Office of Advocacy has been a participant in most of the proceedings SINCE APRIL 1982 relating to the restructuring debate. Our participation has been intended to reflect the interests of small businesses by assuring that this important segment of our economy assumes no more than its fair share of the responsibility for supporting our new, deregulated and cost-based telecommunications industry. The purpose of the Federal Communications Commission's access charge decision was to end the long distance subsidy of local plant costs. The Commission's plan, which exempts single-line businesses and residential users from the fees at this time is viewed as unfair by many small business owners and, moreover, represents an abandonment of the cost-based pricing principle. Cost-based pricing in this instance will operate successfully only when all users of the local network meet their support obligations in a fair and equitable manner. Exempting large segments of users, such as all residential consumers, from sharing these obligations places an unfair burden on the nation's small businesses and the others left to assume the financial responsibility for maintaining the nation's telecommunications network. While I understand that the Commission is currently examining the question of what form the final access decision should take, I think it is grossly unfair to the small businesses of this country to insist that they subsidize residential telephone users until mid-1985, when implementation of the final access charge decision is expected.

The Commission's decision to define small businesses as those with only one telephone line points out a flaw of many of the important restructuring related decisions. This flaw is the absence of substantiating data. The void was made painfully clear to us in our own efforts to secure data when the restructuring debate was in its infancy; and was confirmed when we engaged an outside consulting firm to compile information concerning small business usage of the telephone system. The study we contracted for has been recently completed, and we have forwarded a copy of it to the FCC. I would like to offer the Task Force this same study at this time to assist you in your continuing efforts.

The study was designed to answer a number of questions, including:

1) What is the telephone line distribution among small businesses? In other words, how many businesses have only one line, two lines, etc.?

2) How much of total local usage is accounted for by small businesses?

3) How much of total long distance usage is accounted for by small businesses?

4) How does business size affect telephone costs?

5) On what bases do states make rate determinations for different kinds and classes of users?

Contacts with the Federal Communications Commission, state public utility commissions, Bell Operating Companies, private industry and academic sources failed to provide answers to these questions. The FCC itself only recently recognized this lack of information when it issued a public notice requesting information specific to small business. What this means is that the decisions imposing access charges and higher fees were made without a prior assessment of their impact upon the small business community. This absence of information is important not only for the difficulty it presents in evaluating the small business impact, but also for its affect on the credibility of claims of the importance of subsidies and inadequate revenue collections on the part of the BOCs.

Therefore, I suggest that one of priorities of this Task Force should be to take steps to assure that the Federal Communications Commission and others with key responsibility for reshaping this industry make decisions only after they have all the facts. For instance, the BOCs could get an idea of phone line distribution by collecting information on new phone line installations for commercial establishments over a 3 - 12 month period. After compiling such data, it would be possible to make some rough projections as to the number of businesses with one, two, three, etc. lines. I expect that the marketing divisions of local phone companies have this information readily at hand. The FCC has the authority to compel production of the information and should not hesitate to do so.

As a first step in assuring equity in a final access fee plan, the FCC and state public utility commissions must carefully scrutinize all information submitted by the Bell Operating Companies and AT&T in order to guarantee that the final fees are no higher than absolutely necessary to provide phone companies with a fair profit. Acceptance of the need for access fees would be greater if those who must pay them were confident that they were not paying artificially inflated charges resulting from incomplete disclosures or misguided government action.

The Task Force should also use this opportunity to help clarify pricing policy in order to assist in providing a model for those states engaged in setting local and intrastate access fees. The state regulatory agencies will no doubt look to the FCC and this Task Force for guidance or signals as to how these policy issues should be treated at the intrastate or local levels. The PUCs must be counseled to consider the cumulative burden of the fees and higher service costs on small businesses.

Finally, and most importantly, an equitable access fee system is impossible if large segments of the telephone user population are exempt from the obligation to pay the access fee -- to pay their fair share. Therefore, I oppose such exemptions -- cost-based pricing should stand for the proposition that there is no free lunch. Cost-based pricing means that telephone customers will benefit from a competitive market and pay only for the service they actually use. The subsidized system will soon be part of history. Any access fee structure that would require small businesses to subsidize other users would violate both the spirit and purpose of cost-based pricing and the movement towards deregulation of the telecommunications industry.

Mr. WYDEN. Thank you, Mr. Swain.

I have just a few questions. I know my colleagues have many.

As I gather, the heart of your statement is that you feel, the Department feels, that the FCC proceeded to put these access charges on small business with very incomplete information? They really didn't know much about small business phone usage, and based on this incomplete information, they just went ahead and did it anyway.

Mr. SWAIN. I think it is very clear that they didn't know much about small business phone usage, at least so far the operating companies haven't provided much information on that, except interestingly enough, they are starting now, just within the last month or so.

Mr. WYDEN. We on the task force like to think we have a little bit to do with that, and that is my conclusion as well, and I commend you for it. I think it is clear that the FCC went out and dumped these access charges on small businesses in this country with absolutely no effort to analyze what it would really mean for the small businesses. I think it is really playing Russian roulette with the economic well-being of that sector of the country that produces most of the jobs, the small business sector.

My second question for you, you all have these data banks containing basic information and files on literally millions of small businesses. Would you be willing at the SBA to work with the FCC and the small telephone companies to develop better information about small business telephone usage, the effect on small business of wholesale repricing of phone services so that the FCC could make decisions grounded in fact rather than in speculation?

Mr. SWAIN. We certainly would, Mr. Chairman, we have already submitted to the Commission our initial study which really was, I hope, steering them away from some blind alleys because the study came up with no information, although they looked awfully hard for it. I should make it clear that our data base basically is a very good source of information on where the small businesses are and what types of businesses they are in, how many people they employ.

We, of course, have no information ourselves about telephone usage, but I would think that given some of our basic information matched up against some other information from the telecommunications industry, we probably would be able to make a lot better guesstimates at least on usage patterns than we have right now, and we would certainly be willing to continue to cooperate with the FCC and the task force.

Mr. WYDEN. Just two other questions: The first, elaborate a little bit on your views on access charges. Your basic position in terms of allocating costs in the phone system is that you want a system that is fair, you are not wedded to access charges unnecessarily, you will consider anything that treats people fairly. You mentioned the point about how you don't want to see business, in effect, subsidize residential rates, at least that is your argument, but you are not wedded to access charges at all. Really you want to see a fair system.

Mr. SWAIN. The point that we take is that we are not in a position to second-guess the Commission about whether there ought or ought not to be access charges to make up this alleged revenue shortfall, but the fact is that one of the reasons there has been a lot of small business objection is because they haven't explained it very well, they haven't explained the need for it very well.

Second, when considering ways to phase it in, to minimize the burden on small business, there may ultimately have to be an increased charge burden on small business, but that could be done in a number of different ways and without the information it is tough to make some alternative decisions.

Finally, the present situation that we have, where the small businesses pay and the residential customers don't pay I think is terrible. I think that if you need revenue, by exempting all the residential customers, you are taking your revenue source down to a narrower and narrower point and, of course, the fees are going to have to continue higher.

I know you are going to get into that question of bypass this afternoon. I am not speaking to that. I think, as a principle, a cost-based system ought to be a cost-based system, and if it costs the same amount of money to put a line into a business as it does to put into a home, then everybody ought to pay the same amount. That is our position.

Mr. WYDEN. My only concern about the position is that I saw a little bit of this in the Commerce Committee when we debated these issues last year. We should not pit the small business against the small residential user. What this issue is really all about is how we can allocate the costs fairly. And access charges in my view really aren't fair to the small business, and they aren't fair to the residential users either. I would hope as we go back and look at this issue next year, we come up with a fair pricing system for all concerned.

As far as I am concerned, the only people that benefit from access charges in this country are big users who make lots of long-distance telephone calls. It is a lot like supply-side economics. It is almost supply-side telephone service, where you give all the rate breaks to those at the top who are very powerful, based on the theory that maybe they can help us generate enough revenue so something trickles down to everybody else. But as my colleagues have pointed out eloquently in other hearings, that hasn't been the case. So I would hope that the Department doesn't let this continue to be a fight between small business and small residential users, because I think those are the two groups that have been hit very hard by these changes. I think we need to look at a fair pricing system for everyone.

My last question to you is definitional. How does SBA define small businesses at this point?

Mr. SWAIN. You said you wanted to get free for breakfast tomorrow morning, so I better not give you the full answer. We have some 800 different definitions, of course, depending on the specific industry. I think that for statistical purposes, usually we use a number of employees definition, under 500 employees or under 100 employees.

For purposes of working with a regulatory agency, to suggest that we should have a threshold, we try to find out something about the industry involved and then suggest some alternative definition. That is why we have been particularly vexed by the problem that we don't know how many businesses have two lines, three lines, four lines.

I did an informal survey in my office of almost every dry cleaner and gas station and other sort of Main Street small business in the area where we deal which has a couple of lines coming in. So clearly a two-line business many times is a small business, and to say we have exempted all small businesses because we have exempted all businesses with one line is not accurate. The result is that the policy may or may not be all right, but nobody knows.

Mr. **Wyden**. I knew that defining a small business was going to be more than a sentence or so. You could help us, could help the task force greatly, though, if we could simplify it, because the FCC and the telephone companies would like to define small business, those with six lines or less, and the SBA definitions, as you say, is all over the landscape, often it is 100 employees or less.

The bottom line is we need to figure out a way to correlate those two. I would point out though that in my view this is another reason to get the access charges concept out of the debate. It is difficult to define all these different concepts to even begin to start applying access charges to some people and differentiated access charges for a different group. Just the fact that this definition is so difficult to reach is another reason why we are going to continue to have problems as long as we say access charges ought to be the main way of allocating the costs in the system.

Mr. **Swain**. I fully agree, if there is going to be access charges, everyone should pay the same; if there aren't going to be access charges, then nobody should pay them.

Mr. **Roemer**. Thank you, Mr. Chairman, and thank you, Frank, for your testimony.

You have used a phrase in your presentation, I think it was cost neutral, in regard to divestiture. Is that your hope, is that your expectation, or is that actually what happened?

Mr. **Swain**. Far be it from me to say I know what actually happened. I think that is why you have a task force, to find that out. That is our hope, that it ought to be cost neutral, revenue neutral. I was trying to come up with something that describes what I think ought to be happening. We have a lot of discussion now coming up on various tax proposals, Bradley-Gephardt, and so forth, and in order to keep discussing those without getting into the middle of Presidential debate on whether tax should go higher or lower, people started saying Bradley-Gephardt is revenue neutral unless you raise or lower the rates.

People talk about reforming the system without getting into a discussion whether we ought to be collecting more money. That is really the principle that I think we might want to apply to this discussion. I don't have any knowledge of sitting at SBA, whether the telephone companies need more money. It seems to me if they collect more money from access fees, they ought to give back money in lower long-distance charges, or whatever the other mechanisms are.

So it should be a wash across the line. You should have the same set of services available, and when you get finished paying your bill in the general sense, the bill ought to be about the same. Obviously, for a cost-based system, if somebody uses a long-distance call, they may save more money than somebody else. In the end, when you total it, all of it ought to be equivalent.

I am not sure we have that information, whether it is equivalent or not, I think we ought to try to develop that.

Mr. ROEMER. Are you trying to develop that?

Mr. SWAIN. Well, we are trying to encourage the FCC to develop that, because they are the ones that have all the information, yes.

Mr. ROEMER. I get the feeling, it is my intuitive reading that the aggregate rate is up as a result of divestiture, and, I, too, have been trying to get a copy of or a handle on what the real total cost-neutral validity is in this thing.

Related to that same question, that you didn't address it, except taken generally, is the question of are all of us the same when it comes to telephone costs? You used the word "cost-based telephone rates." It might cost a customer in the heartland of Montana or Louisiana, some different rate than in some block in Brooklyn, just in terms of density per mile of line, for example.

That is not a concept that is unique to the telephone debate, nor new to Members of Congress, like myself. I come from a part of Louisiana that is not densely settled, one major city and then a lot of agricultural land. And we have used the Rural Electrification Administration for half a century to survive, just to put it bluntly. And Presidents who waltz into town periodically, not knowing that history, and say things like cost-base utility rates would just do away with a half century of history and development and equity, where I come from.

Now, to bring that down to the telephone, there are some people who do not necessarily live in my district, but whom I speak for just at the moment, who consider the telephone an essential part of their contact in society, more so than vision, because they can't see their neighbors. The telephone is their window on the world. Maybe some regard to those special circumstances might need to be made in your advocacy.

I just throw that out. I don't know whether you agree with that or not, but I sense that is a part of this equation.

Mr. SWAIN. If you will allow me to continue, Congressman.

Mr. ROEMER. Please.

Mr. SWAIN. I do agree with very much of what you are saying. I come from an area of upstate New York that probably is more like your area of Louisiana than it is New York City, and so I am very much personally acquainted with the fact that a number of basic services in rural areas seem a lot more basic and important and are taken a lot less for granted than sometimes the equivalent in more urban areas. That is a very difficult question to grapple with.

It has always been difficult in the telephone industry I suspect and even more so since the divestiture. In fact, when we filed our brief in 1982, we specifically addressed that issue and said you had better watch out for this coming down the pike, it seems to me that if that is a concern of the Congress, then that is perfectly legitimate for the Congress to address the FCC and the other people and say: "We think you should take this into account in one particular way or another."

I don't have an answer to that. I really don't. Just as Congress saw fit 50 years ago to authorize the Rural Electrification Administration and provide a mechanism to bring electricity to rural areas, there may be other options that are perhaps more modern or less cumbersome in setting up a whole new bureaucracy, but there may be special options for that to be taken into account for rural users. I will certainly try to keep looking into that.

Mr. ROEMER. One of my concerns, and then I will leave it alone and go on to another of my colleagues, one of my concerns is that the system in place prior to divestiture did make more than a nodding realization toward special circumstances, low density, minimal requirements, if you would. It was that minimal bureaucracy that was torn away from us in divestiture, and it is one of the reasons why I am here today.

That is a legitimate concern. I think it is a legitimate concern of yours, but you said nothing about it in your presentation, and I would like to ask you to rethink your presentation on that score, and maybe if you do this again, sometime, someplace where you might mention those who use the telephone not for idle chitchat but for a line to the rest of the world.

Thank you.

Mr. SWAIN. I certainly will.

Mr. WYDEN. I thank the gentleman.

The gentleman from Iowa.

Mr. BEDELL. Thank you, Mr. Chairman, and I would like to echo the remarks of my colleague.

Mr. Swain, you asked a number of questions here and indicate you're having trouble getting the answers to those questions, at least it would appear to this member that to many of those questions, the answers should be available from the operating companies or from AT&T.

Have you asked them for that information directly, and have they refused to give it to you, or what?

Mr. SWAIN. Our contractor asked them for that information, Mr. Bedell, and apparently they declined to give it to them in any detail that was usable.

Mr. BEDELL. Mr. Chairman, I would recommend that this committee directly request the information from them and communicate it to Mr. Swain and find out if they turn us down when we ask for such information.

Mr. WYDEN. We are working with the FCC to gather that information, but let us discuss that among members of the task force. I think it is an excellent idea.

Mr. BEDELL. I don't want to go to the FCC, I want to go directly to the Bell Co. and AT&T to ask for it, not through FCC.

Mr. WYDEN. Without objection, let us followup on the gentleman's suggestion, and we will do everything we can to get it that way as well.

Mr. BEDELL. Mr. Swain, you talk about a revenue shortfall. Let me tell you that this is one Member of the Congress does not believe there is a total revenue shortfall. I just got a copy of the Washington Post from my staff here. I haven't counted the pages, but I would say it weighs about a pound and has reporters from all around the world reporting on everything that happens. Would you expect they can print that for 25 cents?

Mr. **Swain**. I would expect for 25 cents plus their advertising revenues.

Mr. **Bedell**. OK, OK; I don't know, but surely if they were not to have any advertising in that paper and were simply to sell that paper, you wouldn't be buying that paper for 25 cents.

Mr. **Swain**. That is clear.

Mr. **Bedell**. More like $1, and not nearly so many people would buy the paper and they wouldn't be able to get nearly so much from their newspaper. You see that happens in a lot of things in our society. A lot of places subsidize one part of their business in order to get subscribers so they can make money off another part of their business.

I think it is no secret that that was what is happening in our telephone industry. The long-distance rates were subsidizing the local telephone service so the telephone companies could get telephones everywhere so they would be like the newspapers—when people wanted to make long-distance calls, they would have access to the home system and, therefore, they would get more for their money.

My contention is that was a good thing for our society because, as Mr. Roemer pointed out, I think it is just as important for people to have telephones in their homes as it is for them to get the Washington Post in their homes. In fact, I think it is more important, certainly to a widow who needs to have access to hospital care or to be able to contact people if she has trouble or anything. I see no problem in continuing that.

I think the problem is that we have all been sold exactly the bill of goods that you mentioned with revenue shortfall. If we were to say to the Washington Post, "You have to change now, you have to split your business—one of your businesses will sell advertising, the other newspapers, and they both have to stand on their own," that is what we have done with the telephone company. There is no reason in the world that we cannot say that the long-distance companies will still have to pay into a fund to lower costs to have telephones available to everyone, and that long-distance people will have to pay a somewhat higher fee.

Now, as to this hidden bypass thing, I contend that there is no problem. I contend that if you make everybody have to do it, even those that are not a part of AT&T, if they are using the system, that then you still have the revenue coming in, and that is absolutely not the case. I know that I am making a speech rather than asking you a question, but it seems to me we had better be sure we get at the basic problem.

I think the basic problem is we fail to recognize that the Government has a responsibility to try to see that the system works in the best interests of our total society and that there is nothing wrong with us saying that certain areas will have to pay into a fund. We do that in all different of parts of our society.

I just have to tell you, I think this administration, which I think is all big business oriented, we fight it time after time in my opinion in this committee, is trying to fool the American public and tell them that each will have to pay their own way in the system, and I don't think that is in the best interests of our society. I think it is because of the influence of big business and I think somebody has to start to say what the problem is in our opinion.

Mr. **Swain.** I don't want to make a speech back at you. May I make a comment or two?

I actually agree with you on the issue of subsidization. In fact, three years ago, we urged the court to ensure that contrary to their initial proposal that the yellow pages in fact be run by the local operating companies so they would continue to have that advertising revenue, for whatever it is worth.

I am not suggesting that subsidization, the way that you proposed it, is right or wrong, that there ought or ought not to be a fund. The only thing I am suggesting is that by imposing the access charges the way that this Commission has, they have, in effect, caused a subsidization of one-line users by everybody that has more than one line, and that doesn't make any sense to me in the real world.

That is really all I am saying this morning. If there are other specific issues, we will try to address that as they would come on the table. That is really all that we are saying, not there never ought to be subsidization if the Congress feels there are particular communities or social or economic reasons to have that.

I think that is within the purview of the Congress to make that point known. I would only like to mention one thing. The *AT&T* case was filed in the Ford administration, litigated vigorously by the Carter administration and by the Reagan administration. We got to a point where the telephone company, where that bundle of goods and services they were offering, just wasn't working with the technology marching ahead. I am sure there are some large businesses that are probably grabbing for more than they deserve.

I think ultimately it indicates progress, and progress is difficult to deal with, and we have to make sure that as we have progress, we watch it very carefully to make sure it is as fair as possible to all participants.

Mr. **Bedell.** I don't think that is the issue, however, I do not argue with the breakup. I do not argue with any of that. My argument is that prior to the breakup, long-distance lines were indeed subsidizing local service, and there is no reason in the world that cannot continue just because we broke up the two entities.

I yield back the balance of my time.

Mr. **Wyden.** Let me see if I might pick up for one additional question. Are you saying that the FCC access charge system is progress, what we have done so far?

Mr. **Swain.** No, I certainly am not saying that. I am saying that the evolution of a new telephone system is progress, and it is pretty messy progress while we are in the middle of it, and we have to sort out which are the important points from unimportant points. I think the makeup of the phone service and allowing more flexible options, allowing small and large business and consumers other options for long-distance service or private line service is important, and it hits some people differently than it hits others. And I think it is perfectly within the purview of this committee and the Congress to take a very close look at that as it continues to proceed.

Mr. WYDEN. Thank you very much for your testimony, and we look forward to working with you in the days ahead.

Mr. SWAIN. Thank you, Congressman.

Mr. WYDEN. Our next panel is Frank Doyle, legislative advocate of Small Business Service Bureau, Worcester, MA. I think that is correct.

Mr. DOYLE. That is correct.

Mr. WYDEN. With that, why don't you proceed.

TESTIMONY OF FRANCIS X. DOYLE, LEGISLATIVE ADVOCATE, SMALL BUSINESS SERVICE BUREAU, INC.

Mr. DOYLE. Good morning, Mr. Chairman, members of the committee. I am glad to represent the other part of the country that isn't here today. And for the record, my name is Frank Doyle, and I am with the Small Business Service Bureau, Worcester, MA.

I am here today to bring some of the results of a survey I did in response to your invitation letter, Mr. Chairman, for this morning's hearing. As you know, we are a national small business organization with 35,000 businesses that are members, most of whom are self employed and many of whom do business out of their house.

Above and beyond the problems involved in the AT&T breakup, the telephone system is a fundamental, crucial tool to the small business person. It is tied to your idea, Mr. Bedell, of the lifeline for the small business person, it is their ability to get a new customer, maintain customer service, and handle one's day-to-day business. It would be impossible without state-of-the-art telephone equipment for them to contact the outside world.

What has happened in the months following the AT&T breakup, however, is that our Nation's small businesses have been impacted in two ways: One, it has cost them money, and two, it has affected their ability to function absolutely on a day-to-day level.

Let me go into more detail. Unfortunately, local rates have gone up as competition for the long-distance rates has increased, and some of those have gone down. Small businesses have been caught in the middle. We have seen measured service or message units go up in tandem with local rates, and they are driving up communications costs for all small firms.

We have the independent real estate broker, insurance agent, printer, and dress shop all using predominantly local service.

For the security alarm company whose burglar systems are tied into a telephone system, this means greater expense for them altogether.

Once again, we have created a system of charges and incentives. The charges, however, have gone up disproportionately for the local service, the local retail firm, while the incentives have gone to the large national-based market companies. There is no question about that.

So, again, for the small businesses that are relying upon their phone system, many of them are left out in the cold. They are not big enough to take advantage of new incentives that are out there.

One problem that has been exacerbated by the breakup is also the delay in line installation that people are now experiencing. A simple line installation that used to take about 3 weeks has now become a nightmare. As businesses are growing, they want to expand their ability to reach customers, they might be installing a WATTS line. Even small businesses do this to get new customers.

What happens now, when you have to deal with the BOC, the Bell Operating Co., and the long-distance carrier? We have one member who experienced a delay from March until July to get a couple of lines installed. And this is something that is inhibiting the ability of a small company to grow, when you don't have a way for prospects to contact you. It is difficult for someone trying to increase their sales.

So the service problems and rising costs have varied, No. 1. The BOC's providing service to small businesses are responsible strictly for lines, not the equipment, and this is causing more confusion, more cost and more wait for service.

No. 2 is the issue of the information calls per month, that hasn't been brought up yet this morning. This is also something that is a higher cost, if you are trying to do business in places other than your local town. The alternative to AT&T in long-distance calling operations have provided less than optimum service according to the member survey we have done in the past few weeks. Extremely long waits to gain access to the lines in prime time and poor reception are problems.

I am not in the business of selling telephone service. So this is strictly a report. Billings become more complicated, and there are many problems that have come about as a result of this.

A clear majority of Small Business Service Bureau members have had increases in local rates, and business phones cost $6 a month in access charges now, while residential phones have no such restriction. Small businesses feel this is financially damaging to their business.

A member in New Hampshire with four lines is now paying another $288 per year on top of what their bill was already. The recent public notice by the FCC—they are trying to gain information on the local telephone equipment similar to some of the work that you are addressing here in the task force—our findings are that 95 percent of our members have four lines or less. These are very small businesses. These are firms most of which have sales less than $1 million. They are not large companies.

The yellow pages question also has come up. Yellow pages traditionally have been a very effective advertising tool for small business, but the rates that they are seeing are also very high. They have seen a great increase in these over the past 2 years. Our members are very much upset with this.

We also have one member, it turned out, that the local phone companies switched the phone numbers, so he was paying for advertisements for one of his rivals for a whole year. There is nothing they could do to recall all the phonebooks. So some firms feel they are being forced to use the Bell System because of their touch phone service in the area. Members in Vermont, I am sure Iowa, Mississippi, out West, I am sure this is also true, they are not able to access what are the now less expensive systems, because they don't have the technology already. Unfortunately to get that, I am sure the local rates will have to go up to pay for it.

Billing has become more complicated. The bill which used to be a couple of pages is now four or five times as long, and as our members say, there is too much needless paperwork that is being attached onto the monthly bill. The commonsense that phone bills are like taxes, you don't understand them, you just pay them.

So to summarize, Mr. Chairman, I know you have many witnesses here today, one facet of the new arrangement that is generally viewed as beneficial to small businesses is the opportunity to own new equipment or have your own equipment. While the overall breakup of the AT&T is not without its benefits, the transitional period is placing many burdens on small business.

Before the long-distance rates have become competitive, regardless of location or volume, et cetera, local rates have already offset any gain that most of our members are seeing. For most smaller companies, there is a net increase in telephone cost, and this is a cost essentially that they cannot control, they have to conduct their business.

The Small Business Service Bureau would like to see either that the level of lines exempt from access charges be raised, we would love to see them not go into place at all, or that something be addressed here. If there is going to be an exemption for that one line, it should be the first line, not if you only have one line, and I am speaking as someone whose members are the smallest of anyone here before you today. What exists now, we feel, penalizes most local businesses and is increasing their costs, strictly on a larger basis, and there has to be some better way to implement this.

Our members have brought this forth to us in a very spontaneous fashion. I don't have detailed results of utility filings and this kind of thing. Most small businesses are seeing negative experience under the AT&T breakup. The local rates are going up, they are not seeing any great gain on the long-distance, and I think that is the main issue that I would like to leave with the task force today, and hope that you are able to impact on the access charge question.

[Mr. Doyle's prepared statement follows:]

Prepared Statement of Francis X. Doyle, Legislative Advocate, Small Business Service Bureau, Inc.

It's a pleasure for me to appear before you today and to bring the ideas of Small Business Service Bureau, Inc., and its members to your special task force on telephones. In preparation for this morning's hearing my staff has conducted a detailed study regarding the telephone use and expenses common to our members throughout the country.

Small Business Service Bureau, as you know, is a national small business organization with 35,000 members, many of whom are self-employed. In response to the major questions posed in your invitational letter we have the following results.

Above and beyond the details, costs, and problems involved, our Nation's telephone system is a fundamentally crucial tool to the small business person. The ability to get a new customer, maintain customer service and handle one's day-to-day business would be impossible without state of the art telephone communication equipment.

What happened in the months following the AT&T breakup has impacted our Nation's small businesses in two ways: (1) It has cost them money; and (2) It has effected their ability to function smoothly on a day to day basis.

Let me explain: Unfortunately, as local rates have gone up and competition has brought some long distance rates down, many firms are caught in the middle measured service or message—units act in tandem with higher local telephone rates to drive up communication costs for all small firms.

The real estate broker, insurance agent, printer and dress shop all use predominately local service. For them this means access charges, message units and higher rates. For the security alarm company, whose burglar systems are on phones, it creates an even greater expense.

Once again, we have created a system of charges and incentives. The charges go up disproportionately on the local service or retail firm, while the incentives go to the large national market based companies. So, for small businesses that rely on the phone system, many are left out in the cold yet again.

One problem that has been exacerbated by the breakup is the delay in line installation involving the operating companies and AT&T. A simple WATS line installation used to take approximately 3 weeks to request and to have installed. After the breakup, this previously simple procedure becomes a nightmare.

A business that is growing frequently expands it's WATS line coverage from intra-State, to inter-State, if not national. Because this involves not only the B.O.C. but also the carrier, (perhaps AT&T) the co-ordination between the two has collapsed. It recently took from March to July for one of our members to have two (2) simple lines installed.

Any business that is growing needs to tie its marketing and promotion to how prospects can contact them—a process that is stalled by AT&T and its slow service.

Poor service and increasing costs to SBSB members are direct results of the AT&T breakup. Service problems and rising costs are many and varied.

1. The B.O.C. providing service to small businesses is responsible only for the lines, not the equipment. This causes confusion, added costs, and long waits for service.

2. With only 2 free information calls per line per month, many small businesses are forced to cut back their phone operations.

3. The alternatives to AT&T in long-distance calling operations (MCI, Sprint, etc.) provide less than optimum service. Extremely long waits to gain access to their lines in prime time and poor reception or interference are problems associated with these operations.

Billing has become more complicated and is often confusing to someone trying to determine exactly what he is being billed for. An SBSB member in VT was billed for $51, listed under AT&T special services. "I have no idea what "special services" I had received," he said.

The Bell System is generally regarded as superior to its competitors because of its historic experience in the field. The service, while being expensive, was better and more consistent. This same member noted "anybody with their hands in your pockets will be nice".

Another SBSB member, described Sprint's service as "A Mickey Mouse operation". He feels that "AT&T hogs the lines", a view which reflects the frustration of small businesses who are forced to use an inferior telephone system which negatively affects their business receipts.

A clear majority of SBSB members have experienced an increase in their local rates.

Business phones cost $6/month in access charges while residential phones have no such restriction. Small business people feel this is financially damaging to their business. For example, an SBSB member from NH has 4 telephone lines, increasing his monthly rates by $24/month and $288/year. Other comments include "access charges disgust me. They're discriminatory and unfair."

In a recent public notice by the Federal Communications Commission, they are trying to gather information relative to the entire telephone question and its impact upon small firms. Our findings are that 95 percent of our members have 4 lines or less. This is a group of firms whose gross sales are also less than $1 million annually.

The Yellow pages have been one of the most effective advertising tools for businesses in the past. However, our members are upset with what they're charged for listing in the Yellow pages.

Following are comments from SBSB members: "Advertising in the Yellow pages is getting too expensive," "Yellow pages costs are outrageous," and "I'm dropping my business from the Yellow pages."

When businesses even consider dropping it, investigation is needed. We have seen instances where the phone company listed a competitors phone number on a member ad; for a year, they were advertising for a key rival!

Many small firms have actively pursued a more streamlined telephone system. This is good if it is "trimming the fat." However, if telephone communication costs force businesses into a less aggressive and unproductive position, both the business and the economy as a whole will suffer.

Some firms feel that they are being forced to use the Bell system because there is no touch tone service in their area.

Billing seems to be getting more and more complicated. The bill which used to be a couple pages is now 4 even 5 times as long. A SBSB member said, "Too much needless paperwork has been tacked on to the monthly bill". A Connecticut member said, "Phone bills are like taxes, you don't understand them, you just pay them".

The feeling of most small business people about telephone costs and service is one of despair and frustration. They feel the break-up of AT&T was a big mistake, but they feel they could do nothing about it then, and similarly they can do nothing about it now.

An Iowa member said, "This is a classic case of fixing something that wasn't broken".

A NH members agrees, "The Bell system worked, this one doesn't".

"I've got to do business and I have to have phone service. I have no options".

A NC member said, "Rates went up before, now they've gone up again. What can I do?"

The one facet of the new arrangement that was generally viewed as beneficial to small business was the opportunity to own your own equipment. While the overall breakup of AT&T is not without its benefits, this transitional period is placing many burdens upon small businesses. Before the long distance rates have become competitive regardless of location or volume, local rates have already offset any gain.

For most smaller companies, there is a net increase in telephone costs; a cost which they cannot control. Small Business Service Bureau would like to see the level of lines exempt for access charges raised to four and to have an incentive arrangement information calls. What exists now penalizes most local businesses and provides lesser costs only to the largest ones.

Mr. WYDEN. Mr. Doyle, you don't paint a very rosy picture. It seems clear that your group, you can summarize it in a sentence, think they are paying more and getting less.

Mr. DOYLE. Absolutely.

Mr. WYDEN. That is basically what it is all about for small business in the initial stage of the transformation of the telephone industry.

I have a couple of questions—I know my colleague will, as well. One of the things that we have picked up, and I didn't hear you mention, is a substantial number of small businesses in this country, at present, are likely to pay more in access charges for the privilege of having the opportunity to make a long-distance call than they are actually going to pay for the long-distance calls that they make. Are you finding this true?

Mr. DOYLE. I think that to be true, particularly when you add the fact you will have the interstate and intrastate access charges, that could well be true. The only time they would be calling long-distance is calling their supplier, where most of their customers are local. You could well see that.

Mr. WYDEN. Talk about the service situation, and I have heard many complaints. I think, would have to be attributed to any kind of change in any kind of system. Small businesses are very unhappy, based on what I have heard.

Do you have any reason to believe that the large businesses are being serviced before small businesses, that somehow the small businesses are just put at the end of the pecking order? I have heard people ask me about that, there aren't any charges, no one is making any charges here. Do you have any reason to believe that is going on?

Mr. DOYLE. Well, perhaps I shouldn't, but I will use ourselves as an example. Our phone bill is $300,000 a year. When we call the New England Telephone and say we have to have such and such done, the fellow almost lives in our building. When members of ours call, they have more anonymity. It is more Al Vuona's Tuxedo and Rental next door, it is not as important for the local company to do that. It is plain and simple, I think that is true in any business, when a big customer calls, they are a greater portion of the revenue you are seeing. I think that is true anywhere. And one of the things we find is that members call us with problems dealing with any service provider, which the telephone company is, and very often we end up intervening for them. It could be they are running into problems on the ad, as I mentioned, or service. I think that is absolutely true.

Mr. **Wyden**. Do you think we need to look at some kind of readability in phone bills or truth-in-pricing or some kind of arrangement to make sure that this stuff is put into English so human beings can understand it?

Mr. **Doyle**. I think so. One of the examples I didn't read was a member who received a bill for $51 for special services, and he didn't even know what the blazes special services he had received. So it has become very confusing because these are very busy people, they are working very hard to make their business successful, and when you get your phone bill now, it is almost like reading through congressional testimony, it is that long.

Mr. **Wyden**. And it may be more interesting too.

Mr. **Doyle**. Perhaps. They know they have to find a number in there they have to pay. That is definitely a problem.

Mr. **Wyden**. Thank you.

The gentleman from Iowa.

Mr. **Bedell**. I have no questions. Mr. Doyle, I appreciate your being here and appreciate the work you do.

Mr. **Doyle**. Thank you very much.

Mr. **Wyden**. Thank you very much. We will look forward to working with you in the days ahead.

Our next panel is Ms. Joan Claybrook, president, Public Citizen; Mr. Jim Lilly, secretary, American Association for Retired Persons, State of Texas; and Mr. Gene Kimmelman, legislative director, Consumer Federation of America.

At this point, because we are in the position with some witnesses fogged in, how about if we have Mr. Sam Simon, if he is here, come forward as well.

We will begin with you, Mr. Kimmelman. We will make a copy of your prepared statement part of the record, and summarize your testimony and highlight the things that are most important in your organization.

TESTIMONY OF GENE KIMMELMAN, LEGISLATIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

Mr. **Kimmelman**. Thank you, Mr. Chairman, and members of the committee.

My name is Gene Kimmelman, I am legislative director with the Consumer Federation of America. I appreciate this opportunity to testify before you today on this very important issue of telephone access charges and their impact on small business and residential customers.

There really seems to be two problems that have been identified in the world of telephones. One mainly by the industry and the Federal Communications Commission, which is bypass—people leaving the public network. Fear of that, seems to be the impetus for doing an access charge.

At the same time, though, there is another problem out there, and that is the problem of consumers—whether they are small businesses or residential customers. There is total confusion as to what is going on with the telephone system, what is happening after the breakup of AT&T, where rates are going.

Now, I want to focus on the industry's problem because the other one will be easy to hit on at the very end—it is simple. The FCC seems to think we have to price our telephone network in a new way, to stop bypass. That seems to be the thrust of what is going on. Bypass is the culprit.

The problem is that their solution is just going to force everyone's local service rates up. That is the solution to bypass. An increase in local rates for everyone. But for what? What will it do?

I suppose the goal is to prevent bypass. But let's look at bypass and see what actually is going on. First of all, let's understand what it is. In general, the bypass that is being identified is use of private facilities mainly by businesses to circumvent the local company's equipment and connect their calls to a long-distance network.

Now, first of all, we don't know how much bypass there is right now—there are studies being done. The FCC access charge was first implemented when no studies had been completed, just on a hunch. So, first, it is unclear how much bypass there is. Then, where bypass exists, and we have seen it, it exists in many different forms. It is very complicated.

First of all, you have a bypass problem in urban areas, like Manhattan, with a lot of businesses aggregated in a small geographic area that can get together and economically bypass the public telephone network.

In rural areas, you have maybe a different form of bypass. You may have a one company town, in a very rural area, and that that one company has an incentive to set up a private system.

Then you have areas that are really purely residential networks where I have heard no one in the world breath a word about bypass.

If you think about the complications of what bypass is, the fact that we don't know how much there is out there or how much there will be, and then look at the FCC access charge and the access charge which has similarly been promoted by the telephone industry, it is easy to see that this is a very, very blunt instrument that is being used for something that is similar to brain surgery; bypass is a very complicated intricate problem, differs in every part of the country, and we don't even know how much exists. This blunt access charge seems like a strange instrument to use for that type of a problem.

Let's think about the risks that are involved here in using a blunt instrument to approach bypass. First of all, there is what the industry and the FCC calls economic bypass. Even if the public phone companies price at cost, somebody else out there can provide service cheaper. Companies will get service from alternative private systems, instead of the public telephone network.

Now, moving to an access charge is not going to stop that. Many, many people don't think we should try to stop it. I would agree with that. We should note that possibly the greatest volume long-distance users may bypass the network for economic reasons, and this access charge will not stop that.

Then there is another group of businesses out there who indicate that they bypass or intend to bypass because of service problems in the public network. They can't get what they want from the phone companies. Is putting an end users charge on everyone's phone bill going to stop that? I doubt it, particularly not when the bypass investment has already been made.

Then there is the third group of businesses out there who have an economic incentive to bypass. Right now they could save a lot of money, and they don't do it.

When asked about it, they say they don't intend to do it because they want to rely on the public network telephones; since communication is so important to them, and they need a reliable system, they don't want to go and make a big risky investment elsewhere.

What will an access charge do for them? Nothing. They are already staying on the network. This is not to say that these are the only kind of businesses or other users out there, but it just indicates how complicated the problem is and how this blunt instrument, the access charge, which raises everyone's rates, $2, $4, $6, $8, maybe $10, is not the way to go in finding a solution to the problem of bypass.

Then there is the problem of what effect this access charge will have on the rest of us. Whose rates are going to be going up? That is something that the FCC has not wanted to focus on too much. Nor the industry. Let's first look at what is happening with local rates.

We have a new world competitive telephone communications, we are told. What does that mean? Well, for most consumers, it means simply one thing. What you used to think was your local basic charge isn't the end of your local bill anymore. You have got to pay for installation, going up dramatically almost everywhere in the country, maybe even $50 to flip a switch if you are moving into somebody else's home; a few hundred dollars, based on telephone cost estimate, for rewiring a home.

Some people have to pay a large deposit. Then there is the phone, which is getting cheaper, but there is also an insurance charge on inside wiring, or you run the risk of having to pay for repair later on—something people never heard of before.

Then, of course, there is the local charge—what used to be the basic service charge which included everything, and then we hear there may be an intrastate access charge, and interstate access charges, and this is all before you ever made a phone call. That is local service in the new competitive era.

Now, if a portion of the rate requests that were asked for last year—they were over $10 billion in 1983—are granted, and if some of the access charges go in and if some of the other rate increases or separation of costs—unbundling, as the industry calls it—go into effect, we will face a $10 to $20 increase in basic, up-front service charges for our simple plain old telephone system.

What does that mean for people? Well, it is hard to tell. But from the data we have received from the Bell System, it means that, for example, for people below the poverty line, where currently only 80 percent of them have telephones, a $10 increase will knock phone penetration down to 70 percent. A $20 increase could knock it down to 60 percent. For people up to double the poverty line, maybe 70 percent of them would still have phones with that kind of increase.

Now, in the higher income brackets, 96 percent of all people have phones. It would be reduced some, but not a lot. It would maybe be a low-income problem. Now think about this: 65 to 70 percent of the people in this country make few or no long distance phone calls. Are they going to benefit from reduced long-distance rates? Not much, maybe not at all, and the real question for them is whether they are going to be able to afford the phone—the basic service, which they need to connect everything from fancy new gadgets to or plain old long-distance service. Something needs to be done.

There is no need for us to move to this radical new pricing system in our public telephone network. There are other ways to address the bypass problem not use a blunt instrument but target, to focus on the problem and fine tune our current price system.

Regardless of what we do with access charges, we are going to have a problem with raising local rates. Everyone seems to be asking for them, whether it is long distance or local companies, the FCC or sometimes the State commissions.

We need some sort of structural protection for low-income people, something like lifeline service, everywhere in this country. We also need protection for rural areas, we need a high-cost fund, which we have always had before, to target money to the areas that cannot prevent rising costs. We also have a problem with people who never had to defend themselves before rate hearings. They have never had rising rates like they now face. We have to give them the tools to go in and fight for themselves.

I believe the access charge is unnecessary and inequitable. We have other solutions that can address the problem of bypass better. I would like to conclude my statement by saying that I think it is quite clear to most people in this country that we had a high quality phone system—cheap, reliable—under monopoly conditions, and there is no reason why, when we move to competition—which is supposed to bring a lot of benefits—we have to give up any of those good things we had under the monopoly system.

[Mr. Kimmelman's prepared statement follows:]

PREPARED STATEMENT OF GENE KIMMELMAN, LEGISLATIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

I. Introduction

Mr. Chairman and members of the Committee, I am Gene Kimmelman, Legislative Director of Consumer Federation of America (CFA). CFA -- a coalition of over 200 national, state and local consumer, senior citizen, labor, farm, cooperative and rural organizations which together represent more than 35 million people -- appreciates the opportunity to appear before you and express our concerns about recent telephone pricing proposals that threaten universal telephone service.

Despite the growth of competition in the telecommunications industry, the cost of basic phone service is rising at an alarming rate. It is important that Congress review recent developments in telephone pricing to determine if legislation is needed to preserve universal telephone service in this confusing, volatile post-AT&T divestiture environment.

An ominous cloud hovers over our nation's telephone system. Competition, responsible for cheap long distance service and new telephone products, is being manipulated by the telephone industry to benefit business customers and increase phone company profits. Federal regulators have, so far, rubber stamped industry-sponsored price schemes and market plans that threaten the availability of affordable phone service for all Americans.

The Bell breakup has failed to live up to its promised consumer benefits. While the American public may want cheaper long distance service and fancy new telephone gadgets, it never bargained to give up cheap, simple, and reliable local service in return. After all, consumers will only benefit from the information age services developed through competition if they can afford to use them. Unless basic phone service -- including the cost of using the phone --

remains affordable, the new telecommunications products, all of which work off the telephone line, will remain outside the reach of the average American household.

Current Federal Communications Commission (FCC) decisions and local phone company rate requests threaten to drive the cost of basic phone service through the roof. Last year, the FCC signaled its intent to shift over $6.5 billion of long distance costs onto local phone bills through an interstate end-user access charge.[1] A similar state access charge would add an equivalent amount to local charges.[2] Simultaneously, local phone companies asked state regulators for over $10 billion in rate increases,[3] and announced their intent to raise installation charges to their "real cost" -- estimated to run as high as $200.[4] Although vigilant regulators will grant only a portion of these rate requests (last year, the phone companies were granted 47 percent of what they asked for[5]), the message to consumers is clear: in order to participate in the benefits of the Bell breakup, you must pay through the nose.

Despite this upheaval in the world's best telephone system, it is useless and wrong to blame competition, in general, or the Bell breakup, in particular, for our current predicament. It is useless to devise policies that rely on monopoly market conditions or a monopoly phone company which no longer exist; the Bell system can no more be put back together again than could Humpty-Dumpty. Furthermore, there is no reason why simple, reliable, affordable phone service cannot be provided just as easily under competitive as monopoly conditions. It is the policies advocated by the phone industry and implemented by the FCC that threaten universal telephone service, not competition.

II. Telephone Pricing

The controversy over the appropriate price of basic telephone service involves the $30-40 billion of telephone equipment that makes up our local, public phone network. Part of this equipment is used just for local calling, but most is shared between local and long distance use. Through a formula devised cooperatively by state and federal regulators, and phone company representatives, approximately 30 percent of these equipment costs are charged to interstate long distance carriers that connect their calls through the local network.[6] Although this cost allocation formula is not based on a particular economic theory, it reflects what was long believed to be an equitable distribution of phone system costs. It is this interstate portion of costs -- $11 billion last year, dropping to $6.5 billion by the end of the decade, as phones and inside wiring are removed from the phone company's rate base[7] -- that the FCC intends to add to local service charges through its access charge scheme.

A. The End-User Access Charge

The FCC's access charge plan is based on the theory that the cost of equipment used to connect a call to the long distance network -- currently paid by long distance callers on an individual basis -- should be paid by all local ratepayers through a monthly service charge. The FCC argues that, since the cost of the equipment used to connect these calls does not vary with usage, it should be charged to all customers, whether they make long distance calls or not, through a flat fee.[8] They call this "cost-based pricing," where the cost of telephone equipment is charged to the "cost-causer" through the most efficient price scheme.[9]

Due to political pressure exerted by the Congress, it is impossible to determine how far the FCC intends to go with its access charge scheme.

The Commission originally intended to start the access charge at $2/month for each residential telephone line starting in January 1984, and increase the charge to about $7/month after a phase-in period.[10] In response to public outrage over this plan, the FCC delayed implementation of the residential end-user charge until June 1985, and promised not to allow this fee to go above $4/month in 1989.[11]

B. Problems With the End-User Access Charge

Although an appealing concept in theory, the end-user access charge is neither equitable nor necessary in a competitive telecommunications market. The FCC's access charge plan is nothing more than a backdoor method of shifting billions of dollars of long distance costs from business to residential customers, and from long distance to local callers. The FCC's plan overreacts to the problem of large users leaving the public network ("bypass") by reducing business costs sharply, rather than targeting rate reductions to problem areas in the current rate structure.

1. Inequitable Cost Shift

When fully implemented, the FCC's access charge plan will cause the greatest wealth transfer in telephone history. As the FCC transforms long distance charges into access charges, business callers stand to save $3.5-4.0 billion per year in long distance charges.* The one percent of corporate America that is responsible for 40 percent of the nation's long distance business charges would save over $1 billion per year.[12] Since similar price shifts would occur within each state to prevent major differences between interstate and intrastate long distance charges, the previous numbers reflect just about half of the access charge's impact. Thus, the total effect of the Commission's plan would be to decrease business callers' long distance charges by $7-8 billion per year, and shift $3-4 billion of these costs onto residential ratepayers' local charges.

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*Business currently makes about one-half of all long distance calls. Assuming long distance rates are reduced dollar-for-dollar as access charges are implemented, business will pay about $2 billion in access charges, save $3.5-4.0 billion in long distance charges, shifting $1.5-2.0 billion onto residential ratepayers.

More alarming than this multi-billion dollar shift from business to residential charges is the new financial burden that access charges would place on consumers who seldom make long distance calls. The FCC's plan would leave the 65 percent of residential customers who make few or no long distance calls[13] paying anywhere from $7-14 a month for something they do not need or use -- interstate and intrastate long distance access.

When added to other new costs that are driving up local rates, access charges may contribute to the destruction of universal telephone service. The local service charge, which used to reflect the entire cost of service, is now only a portion of that cost. Consumers must now buy or rent a phone, purchase their inside wiring, pay to insure that wiring (or pay to repair it later), and in some cases pay usage charges for local calls, in addition to the basic service charge. Also, installation charges have been rising dramatically -- often over $50 for the phone company to flip a switch so that existing service is transferred to a new party, and up to $200 to wire a new residence, plus a sizable deposit in many instances.[14] Finally, local phone companies claim that the Bell breakup and competition make it necessary to increase local rates. Just last year these companies asked for over $10 billion in rate increases.[15]

Bell System data indicate that many households may be forced to give up their phones because of these rate increases. In a study commissioned by the former Bell operating companies, National Economic Research Associates (NERA) found that 10.6 percent of households would be without phone service if local rates rise $10/month, and 15.9 percent if rates rise $20/month.[16] This translates into over 8.3 million households without a phone with a $10 increase and over 12.7 million households phoneless with a $20 increase in local rates. These numbers do not include the rising cost of telephone installation, which NERA found to have a dramatic independent effect on families' choice to give up the phone.[17] Since the average cost of local service is currently about $12-14/month, implementation of the Commission's access charge plan -- a $7-14/month rate hike by itself -- and a portion of the rate increases requested by local phone companies is likely to result in the dramatic drop in telephone penetration predicted by the NERA study.

2. Bypass Hysteria

The FCC cited bypass of the public telephone network as one of its chief reasons for initiating an end-user access charge.[18] The Commission reasoned that the biggest phone company customers -- corporations that constantly make long distance calls -- will leave the public network if required to continue to pay, through long distance rates, for a portion of the local equipment used to connect their long distance calls. Unless end-user charges are implemented, the FCC believes these corporations will "bypass" the local telephone system, draining needed revenue from the local phone company by transmitting long distance calls through private local lines.

While the FCC's concerns are legitimate, its solution creates more problems than it solves. First of all, most businesses currently indicate little interest in establishing their own bypass network; their telecommunications needs are so extensive and important to their business that they prefer to stick with the "old reliable" phone company.[19]

So the end-user access charge is not needed to keep these businesses on the public network. Second, many companies that already bypass, or intend to in the future, claim that the local phone company's failure to provide quality service or the most modern equipment -- not price -- is the main reason for leaving the public network.[20] They will probably decrease their use of the public network with or without an access charge. Finally, and most importantly, there are other methods of reducing long distance rates for the category of phone users most likely to bypass, without adding billions of dollars to residential customers' local rates. Why threaten universal telephone service with a radical new pricing scheme that may do little to preserve broad use of the public phone network?

III. Telephone Industry Strategy

Although the telephone industry is no longer a monolith, one common theme runs through all post-divestiture phone industry strategy. Both long distance and local carriers are rushing to enter as many competitive markets as possible, reduce prices in these markets as much as possible, and dump the bulk of their costs on the captive, monopoly ratepayer.

A. Long Distance Carriers

The biggest winner in the Bell breakup was AT&T itself. After fighting divestiture for many years, AT&T finally got a deal from the government that was too good to pass up. In return for giving up its most unprofitable business -- local phone service -- AT&T was released from a promise it made in 1956 not to enter the lucrative computer market.[21] The breakup left AT&T with the most modern one-third of the old Bell system equipment and two-thirds of its revenue -- not a bad deal.

Now, AT&T and its telecommunications competitors are in the business of promoting cheap long distance service. If long distance rates drop significantly, consumers will make more calls and develop an interest in more sophisticated services that can be accessed through a long distance call. The FCC's access charge plan would play right into the hands of the long distance carriers' marketing strategy: shift $6.5 billion in long distance charges onto local ratepayers so that long distance rates can be reduced, inducing people to use long distance service more often and for more purposes. It should come as no surprise that all long distance carriers and telecommunications equipment firms support the Commission's access charge plan.

B. Local Phone Companies

The Bell breakup left local phone service in the hands of seven regional holding companies that are striving to become just like their parent, AT&T. The former Bell operating companies have changed their focus from local phone service to diversification into new, competitive markets. While some -- like Pacific Telesis -- seek political protection to maintain a local monopoly, and others -- like U.S. West -- desire detariffing or deregulation to fight off emerging competition, all the regional companies are using their market power to move into more profitable business activities.

1. Spin-Off and Diversify

The regional holding companies have embarked on a high-risk strategy that threatens affordable phone service. Rather than pumping profits back into the deregulated phone companies, the holding companies are moving all profitable ventures into unregulated, spin-off companies. As pointed out by Federal District Court Judge Harold Greene, who presided over the Bell breakup, this practice drains revenue -- needed to keep local rates down -- out of the regulated rate base:

> As long as a Regional Holding Company is engaged in both monopoly and competitive activities, it will have the incentive as well as the ability to "milk" the rate-of-return regulated monopoly affiliate to subsidize its competitive ventures ...
>
> * * *
>
> When the Court required AT&T to turn over its Yellow Pages operations to the Operating Companies, it assumed that the revenues from directory advertising would continue to be included in the rate base of the Operating Companies, providing a subsidy to local rates. Yet, the Regional Holding Companies, or some of them, have breached that understanding. Instead of funnelling Yellow Pages revenues to the Operating Companies, they have created subsidiaries to handle their directory publishing operations which do not feed the revenues from these operations into the rate base.
>
> In short, it is likely that the competitive ventures of the Regional Holding Companies, which rely in a number of ways on the funds generated by the ratepayers, will not share the profits from these ventures with the ratepayers. (footnotes omitted).[22]

The regional companies are also driving up local rates to help finance new business ventures in unregulated markets. When a company expands from a regulated market, where its profits are limited, into a competitive market, it has an incentive to overcharge in the regulated business and undercharge in the competitive one. By shifting costs to the regulated entity, a firm can recover its costs through regulated rates while it maximizes profits by undercutting competitors in unregulated markets. Judge Greene describes how the regional holding companies, which want to sell everything from real estate to software, might weaken their telephone business and drive up local rates if allowed to enter new lucrative markets:

> Cross subsidization may take a variety of forms. One such practice would be the misallocation of common costs. To the extent that a Regional Holding

> Company used the same facilities, equipment, and personnel to serve both its regulated and its unregulated activities, it would have the ability to overallocate the costs assigned to the former in order to maximize the amount that would be passed on to the ratepayers (who have no choice but to pay). Not only would this improper assignment of costs burden the ratepayers; it would also enable the company profitably to charge less for its competitive products and services than to its rivals who enjoy no such subsidy.
>
> A Regional Holding Company could also subsidize its competitive ventures by transferring assets from its regulated affiliates to its unregulated affiliates at less than their cost or below their market value. Such a practice would not only adversely affect the ratepayers who ultimately fund the research and development costs of the transferred assets, but it would, once again, impede fair and effective competition in the competitive market: this cross subsidization would give the company's unregulated enterprise an obvious and improper advantage over its competitors. Conversely, a regulated affiliate could "purchase" assets from the unregulated affiliate at a price above their market value and pass on the extra costs to the ratepayers.
>
> In addition to cross subsidization, a Regional Holding Company could impede competition in markets unrelated to telecommunications by exploiting the marketing advantages stemming from its local exchange monopoly. The company would have a unique advantage over its competitors if, for example, it "bundled" its regulated monopoly services with its competitive products or services, or if it advertised, and in fact provided to its customers in the competitive market, more timely telecommunications service, preferential access, or both. (footnotes omitted)[23]

Judge Greene then illustrates how the regional companies' diversification activities demonstrate their intent to downgrade telephone service and allow local rates to rise:

> As will now be seen, the vast and diverse programs the Regional Holding Companies are formulating, and the priorities the companies seem to be assigning to these programs, constitute a serious threat to their obligations under the decree and the implementing documents.

> As evidenced both by the pending waiver requests and by reports of their intentions, the Regional Holding Companies are expending significant managerial and other resources to discover and analyze new business opportunities. Moreover, some of these companies candidly state that they regard the telephone business as of limited interest to them and the fate of the ratepayers as of little significance in the context of the decree.
>
> * * *
>
> The more the Regional Holding Companies diversify, the less central their telecommunications functions will obviously become to their corporate existence. To the extent that these companies perceive their new, unregulated businesses as more exciting, or more profitable than the provision of local telephone service to the American public -- as they obviously do -- it is inevitable that, should they be permitted to embark upon such business enterprises on a significant scale, their managerial talent and financial resources will be diverted from the business of providing such service. As a consequence, both the quality and the price of that service are bound to suffer ... (footnotes omitted)[24]

2. Local Measured Service

Aware that the public will not quietly accept the local rate increases that fit this diversification strategy, the regional holding companies have devised a backdoor method of raising local charges. The companies have proposed "optional measured service" as a new pricing scheme for local service, along with interstate and intrastate access charges for long distance. With optional measured service, basic service charges can be reduced -- although any reduction would be offset in the near future by end-user access charges -- and then all calls carry a charge, similar to long distance. This new usage based local pricing scheme could generate considerably more revenue for local phone companies, without requiring a rate increase. Also, as optional measured service is implemented and access charges take effect, the cost of "premium," unlimited usage will inch up to prohibitive levels, inducing customers to switch to the pay-per-call option.

From the regional companies' point of view, end-user access charges fit well with this new local pricing scheme. If the access charge helps generate increased long distance calling, data processing and other telecommunications services, the regional companies will rake in significantly more money from usage charges than flat rate service. The potential corporate benefit of optional measured service is so great that the regional companies are spending millions of dollars to purchase the equipment necessary to meter local calls.

Ironically, consumers are being asked to pay higher rates so that the local phone companies can purchase metering equipment for a service ratepayers have demonstrated no interest in receiving. Since nothing in the Bell breakup requires this repricing of monopoly services, why not leave the last vestage of plain old telephone service alone?

IV. Universal Service in a Competitive Environment

A competitive marketplace with strong incentives for technological advancement can and should be fostered through a price structure that preserves affordable basic phone service for all consumers. An equitable division of public network costs, cost-based pricing of new investment, a universal service fund, and enhanced public participation would meet the needs of an increasingly competitive industry and preserve universal service.

A. Long Distance Pricing

The threat of bypass can be addressed without shifting $6.5 billion worth of long distance charges from long distance to local users. A flexible, differentiated long distance rate structure, which includes volume discounts and tapered usage charges, would allow federal and state regulators to target and eliminate likely bypass problems. With the likelihood of bypass differing from state to state, urban to rural area, and one-company town to purely residential neighborhood, it makes sense to build flexibility into the rate setting process.

Since all long distance customers add costs to the local network and benefit by connecting calls through the network, they should be required to pay their fair share for the equipment they use. The network of local lines and switches would be considerably less sophisticated, and cheaper, if long distance calls were not connected through it. Until "stand alone" costs studies -- which separate the costs of equipment necessary to provide local service, from the added cost of serving long distance customers -- are completed, it makes little sense to change a system of dividing costs that, until recently, was considered equitable by the phone industry, the government, and consumers. If stand alone studies do not resolve the pricing controversy, the current cost division system needs nothing more than fine-tuning to meet bypass and equity concerns.

Most importantly, residential ratepayers must not be singled out to pay a disproportionate share of the cost of equipment purchased prior to the Bell breakup. All telephone users should share the burden of transforming our monopoly telephone system into a competitive one. Until old equipment is retired from use, its costs should be shared by the business and residential, local and long distance callers that use it. As pointed out earlier, the FCC's end-user access charge plan would destroy this equitable cost distribution.

The most efficient and equitable price scheme for current, post-divestiture phone company investment is a cost-based system. Those who are responsible for and take advantage of new phone company investment should be required to pay for it. In this pricing system, services provided for residential customers would be charged to them, and the cost of services designed for business customers would be added to business rates. As old equipment is retired and long distance charges reflect the cost of new equipment, the local phone company would be able to compete with any bypasser; no bypasser can afford to offer service at a price below the cost of the equipment needed to connect long distance calls.

B. Lifeline Rates

Before any of the costs currently paid through long distance calling are shifted to local, residential rates, it is important to ensure that low and fixed income, elderly and handicapped individuals are protected against dramatic rate increases. Building on an existing phone industry internal subsidy mechanism for "high-cost" areas, rather than a bureaucratic, taxpayer funded "phone stamp" program, local and long distance phone companies should be required to pool resources to fund a "lifeline," subsidized rate for those who cannot afford basic phone service. By targeting below-cost service to those most vulnerable to rate increases, an efficient price structure can be established for all other customers without damaging universal service.

1. Lifeline Eligibility Requirements

In a competitive environment, it will be impossible to keep local service charges low for all telephone subscribers. Even without end-user charges, reasonable depreciation practices and investment in new equipment will drive basic service charges up. Rather than reduce charges a small amount for all residential subscribers -- as could be done with a below-cost service available to all residential subscribers -- it makes sense to provide a sizable subsidy to those individuals and families likely to give up phone service or other necessities as rates rise.

The NERA study, cited earlier, illustrates the potential value of targeted lifeline service. NERA's data show that a large lifeline subsidy for poor and near-poor households would do more to preserve universal service than a modest subsidy for all residential telephone subscribers.[25] Since low-income households have yet to reach the universal telephone subscription levels of middle-and high-income groups -- 80.5 percent of the poor have phones, versus approximately 96 percent of everyone else --[26] they should be fully protected against local rate increases. A half-price lifeline service available to households with income below twice the poverty level may raise the telephone subscription rate of low-income households and keep them stable as rates rise.

The need to provide low-income households with a substantial break on their local phone bills is dramatically augmented by recent tax increases and cuts in state and federal social program spending. The General Accounting Office reports that a 1981 change in federal welfare standards made 493,000 fewer families eligible for benefits.[27] Census Bureau figures show that from 1979 to 1982, the percentage of Americans living in poverty rose by one-third.[28] In a recent editorial, the Washington Post described the new tax burden of low-income Americans:

> But official poverty counts, which are adjusted for inflation, show that not only are more people now living in poverty but the degree of their destitution has increased. Even the poverty numbers understate the situation, because they do not take account of the higher tax rates that the committee /Joint Committee on Taxation/ study reveals ...
>
> A family of four earning a poverty-level income will pay 10.5 percent of its meager resources in taxes next year. In 1978, it paid only 4 percent. A family of six will pay 11.1 percent, up from 6.1 percent in 1978.

In another editorial, the Post raised the logical question that follows from these poverty data:

> Almost 11 million poor households have less than $5,000 a year income. Have you ever thought how hard it would be to pay for food, shelter, utilities and other necessities with less than $96 a week to spend?

With poverty on the rise and public assistance in decline, it is only fair that the telephone industry avoid pricing low-income households out of phone service or force them to forego other necessities just to keep their phone.

2. Characteristics of an Effective Lifeline

To make lifeline service affordable and useful to as many low-income households as possible, it must be simple and cheap. Up-front costs -- including monthly service charges and installation fees -- should be minimized, and complicated per-call charges -- including distance, time and time-of-day rates -- should be prohibited. Given the increasing importance of telecommunications in our society, lifeline service must provide the same complete link to information-age gadgets and services as full-cost local service.

NERA's data show that the three greatest disincentives to maintaining phone service are: increased monthly rates, high-installation fees and large per-call charges.[29] By spreading the cost of installation over its useful life, setting monthly lifeline rates at one-half the unlimited-calling service rate, and charging a modest fee for calls in excess of two a day, lifeline service would meet the major needs of low-income and fixed-income elderly or handicapped households. Those who lack the savings needed to cover substantial up-front costs, and those who need to make a large number of local calls for health and safety purposes, would have an affordable link with the outside world. Lifeline subscribers would then be free to choose how they prefer to spend their remaining income -- on the new services and products of a competitive telecommunications industry, or other goods.

C. Public Participation

> Let us recognize what legislation can -- and cannot -- do. A bill cannot stop telephone companies from requesting inflated rate hikes. But unreasonable rate increases -- like the ones pending today -- can otherwise be avoided.
>
> From remarks by Representative
> Timothy Wirth, New Telecommunications
> Marketplace Seminar, Washington, D.C.,
> June 14, 1983.

Regardless what public officials do to stop it, consumers are likely to face sizable phone rate increases in the near future. With over $10 billion of rate increases requested by local phone companies last year, $5-7 billion of intrastate access charges to be assigned, and the FCC's access charge yet to be implemented, consumers must participate in the regulatory process to protect their interests. Yet, without better knowledge of telecommunications issues, consumers will not be able to challenge pending rate requests.

Congress can help consumers organize themselves, without spending a single tax dollar. A simple requirement that phone companies notify ratepayers about the existence of a self-financed telecommunications consumer advocacy organization, would enable ratepayers to join together and monitor regulatory activities. This ratepayer organization, fully funded by voluntary contributions and democratically organized by its supporters, would be able to develop the expertise necessary to represent consumers before telecommunications policymakers. Without a federal requirement that phone companies notify ratepayers of the possibility of forming this type of organization, it will be impossible for consumers to challenge phone company justifications for substantial rate increases.

CONCLUSION

CFA believes that recent telephone industry pricing proposals and the FCC's access charge decision threaten universal telephone service. Local and long distance phone companies, and the Commission, have used the Bell breakup and increased competition as an excuse to raise basic service charges and transform billions of dollars of long distance costs into local charges. These dramatic rate increases are both unnecessary and inequitable. There is no reason why an industry that achieved universal service -- telephone service reaching over 93 percent of American homes -- under monopoly conditions cannot do the same in a competitive market.

FOOTNOTES

1. See MTS and WATS Market Structure, CC Docket No. 78-72, Phase I, Third Report and Order, 48 Fed. Reg. 10319 (March 11, 1983), as modified under reconsideration, July 27, 1983.

2. Bell Communications Research, Inc., "The Impact of End User Charges on Bypass and Universal Telephone Service," September 1984, at 76.

3. Report of the Staff of the Committee on Energy and Commerce of the U.S. House of Representatives on Local Telephone Rate Increases, January 1984, at 2.

4. Statement of Lewis J. Perl, at the 12th Annual Telecommunications Policy Research Conference, April 24, 1984, at Airlie, Virginia.

5. Report of the Staff, op. cit., at 2.

6. See Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board (CC Docket No. 80-286), 49 Fed. Reg. 7934 (1984).

7. See Bell Communications Research, op. cit., at 57, footnotes * and **.

8. See MTS and WATS Market Structure, op. cit.,

9. Id.

10. Id.

11. See F.C.C. News Release, January 19, 1984.

12. See Comments of the Bell System Operating Companies and AT&T in Response to the Fourth Supplemental Notice of Inquiry and Proposed Rulemaking, CC Docket No. 78-72, Phase I, August 6, 1982.

13. Statement of Lewis Perl, op. cit.,

14. Id.

15. Report of the Staff, op. cit., at 2.

16. Lewis J. Perl, Residential Demand for Telephone Service 1983, National Economic Research Associates, Inc., Dec. 16, 1983, at 27.

17. Id.

18. In the Matter of MTS and WATS Market Structure, CC Docket No. 78-72, Phase I, Adopted December 22, 1982; Released February 28, 1983.

19. Bethesda Research Institute, Study of Local Bypass -- Final Survey Results, submitted in Case No. 28710 before the New York State Public Service Commission, June 1984.

20. Id.

21. See Justice Department "Competitive Impact Statement," 47 Fed. Reg. 7170 (February 17, 1982).

22. Opinion of Judge Harold Greene on "line of business" waiver requests, July 26, 1984 (Civil Action No. 82-0192, U.S. v. Western Electric and AT&T, U.S. v. AT&T) at 9, 39-41.

23. Id. at 10-12, 34-35.

24. Id. at 30-32.

25. Lewis J. Perl, op. cit., at 14-15.

26. Id., at 24.

27. See The Wall Street Journal, April 2, 1984.

28. See The Washington Post, March 4, 1984.

29. Lewis J. Perl, op. cit., at 16.

Mr. **Wyden**. Thank you very much, Mr Kimmelman. I know we will have some questions momentarily.

Ms. Claybrook, we are happy to have you, and we will make a prepared copy of your testimony part of the record, and if you could summarize the key points, as far as your organization is concerned, I think it would be helpful.

TESTIMONY OF JOAN CLAYBROOK, PRESIDENT, PUBLIC CITIZEN

Ms. **Claybrook**. Thank you. I appreciate the opportunity to testify.

I completely endorse the comments that Gene Kimmelman has made. We have worked in close association on this issue, and I, therefore, will not repeat the points that he made.

What I would like to focus on for a moment is the remedy for citizens acting together. Public Citizen has long supported the concept of voluntary citizen associations and organizations, and we believe that there is a concept that has been developed in the public utility area that is very effective for consumers, and that would be particularly helpful in this era of rising telephone rates. That is something called the Citizen Utility Board. This is already in practice in the State of Wisconsin. There are some 80,000 members of the board there. It has just been instituted in the State of Illinois, and it is moving in to implementation in the State of New York.

This is a proposal which would require the telephone utility or any public utility, should it be covered, to send notices to all the citizens who subscribe to their service, with their monthly bill, and the notice would say that if you want to join your other citizens in your State to form a citizen organization, you may do so, and it gives the address and tells you how to do it.

This allows citizens to join together to coalesce and to voluntarily fund an organization which can represent their interests, and their interests only, before the Public Utility Commission and in the State legislature, should that be necessary.

We believe that this is really an important issue in terms of the resolution of problems in telephone service because most citizens simply don't have the information or knowledge to deal with this issue individually.

Second, it does take full-time activity. It is not something that you can do on an ad hoc basis occasionally. You have to be at the right place at the right time in order to influence the process as all Members of Congress know. We believe that it is really highly preferable to have a system where citizens are acting on their own behalf whenever possible.

There are some States that have the Public Utility Counsel or Consumers Counsel, I believe there are 12 States that have this system. Those are just wonderful and they have done a terrific job. But there are issues and types of activities to influence the process that governmental officials cannot undertake. That includes petitioning the utility on behalf of a large number of consumers. It includes organizing them so that they can do letter-writing campaigns and other things to express fully to the legislature and to the commission exactly what their position is.

A public counsel is really only permitted to serve as an advocate in the forum of the Utility Commission, and it is often not permitted to do any legislative activity or any other kind of advocacy work.

Now, the way that this proposal was passed by the House of Representatives last year, we think, is a very effective one. We think that it would work well in every State. We would urge the committee to look very carefully, as you assess and analyze this problem with recommending or urging the institution of systems like this.

The major problem facing most consumers is that they don't know how to organize people all across their communities or their Nation who don't know each other to form and forge, organize. The expense and difficulty of communication not only in telephone communication but in communication across communities is very difficult. We would urge that this kind of consumer association become a part of any telephone rate activity.

The guidelines that we set down in the House legislation required that any telephone consumer who is at least 16 years old and who is willing to pay a small membership, it would be $5, be able to join this association; that the association would have the power to intervene in State and Federal telephone proceedings and insert these solicitations in the billing notices. This would be at no cost to the telephone company because they would be reimbursed by the consumer association for any costs involved. Each consumer association would have to contribute 10 percent of its resources to create a national resource center to do technical research and intervene in Federal proceedings if they wish to do so. In addition, the Board of Directors would be democratically selected in staggered terms from distinct geographical areas. Candidates for the board must submit disclosure statements, financial disclosure statements, and not have conflicts of interest. And in order to get the whole process started in any State, the Governor would select an interim board in the very beginning to set it up, and telephone company employees, as such, would not be able to be part of this.

I think it is a very simple system and very important in view of the huge cost the consumers of telephones are now facing. It does fit within the best traditions of democracy in the United States; where consumers or citizens join together to represent their own interests.

So that is the major portion of my testimony, Mr. Chairman. I would be delighted to answer any questions you might have.

Mr. WYDEN. Thank you very much.

[Ms. Claybrook's prepared statement follows:]

Prepared Statement of Joan Claybrook, President, Public Citizen

Thank you for the opportunity to testify today. I am Joan Claybrook, President of Public Citizen. Public Citizen is a nationwide consumer organization founded by Ralph Nader in 1971. Public Citizen's Congress Watch is active in helping residential and small business telephone customers maintain fair and affordable local telephone service rates in Washington, D.C. and throughout the country.

Local telephone rate increases are besieging residential and small business customers. In most cases these customers are made to spend the time and resources and garner the expertise to participatee in the rate-making proceedings. This is particularly important now because the magnitude of these rate requests in every state threatens Congress' 50-year policy of providing universal and affordable telephone service to all citizens.

Last year $2.5 billion out of a requested $5 billion for local telephone rate increases was granted to local phone companies with no improvement to basic phone service. As of this summer, $5 billion in additional requests for rate increases for local service is pending. If this year's rate increase requests are approved, we shall witness a doubling or tripling of local phone service rate for plain old telephone service. This does not include the additional cost of repair service that used to be free.

For Example, C&P Telephone in the District of Columbia has a rate request pending which would raise basic service charges 155 percent since their last increase granted in January 1984. This would be a tripling in rates since November of 1983 and would mean an average $30 per month phone bill. Many citizens in this city and in communities across America simiply cannot afford such an expense for just one of their basic needs.

Skyrocketing telephone bills are setting the stage for a consumer revolt in the face of unjustified and unfair pricing schemes by the new regional holding companies that replaced the Bell Operating Companies and small local telephone companies.

A creative and constructive force for democratic participation is a telephone consumers association, also known as a Citizens Utility Board, (tele-CUB). The states of Wisconsin since 1979, and more recently, New York and Illinois have implemented Citizen Utility Boards to represent consumer interests before their state regulatory commissions. CUBs are being considered on the ballot in November in Oregon and by legislatures in several other states, such as Massachusetts and Connecticut.

The Telephone Preservation Act of 1983, H.R. 4102, was passed by the House of Representatives last November. Among other important provisions, this bill in Section 12 calls for telephone consumers to form voluntary, democratically structured telephone consumer associations in each state to participate in state rate-making proceedings.

In the context of the pending federal legislation and proposals pending in several states, I would like to focus the remainder of my testimony on the implications and value for of consumer representative citizen bodies overseeing telephone service and rates.

This legislation, also, would prohibit imposition of the residential-user access charge authorized by the Federal Communications Commission. This prohibition would save consumers $2 per month and eventually $7-8 per month. If access charges are allowed to go into effect, the 65 percent of the residential customers who make few or no long-distance calls would be subsidizing the small percentage of all telephone users, primarily larger businesses, who make the majority of long-distance calls. Under the bill, one-line small businesses would also be exempt from the FCC access charge.

This bill would also create a universal service fund to preserve universal and affordable phone service throughout America. This fund would be used to keep rates low in rural, high cost areas and will pay a portion of a federally mandated 'lifeline' service for low-income users.

Along with a reduction in the surcharge on long-distance calls, these three major provisions of H.R. 4102 mark the first major telecommunications legislation since the 1934 act to pass in the House. I hope that the Senate will follow the House's lead and pass telephone legislation before the end of the session. The Senate vote of 44 to 40 to table the telecommunications bill in January 1984 signals the stand of various senators with or against telephone consumers which many voters will be considering in November.

The need for consumer telephone associations becomes clearer when we look at the pricing schemes employed by the regional holding companies and other local phone companies to raise revenues without clear and convincing evidence of financial need, and favorable rulings by state regulators to increases rates without adequate study and proof.

Consumer telephone associations are desperately needed to cut through the rhetoric and allegations propounded by the regional holding companies regarding their alleged financial needs arising out of the divestiture. We support the financial viability of the local phone company, but not the stories they tell regarding their so-called lost AT&T "subsidy." AT&T simply paid for access to local lines, as they are presently being required to do, and were not providing a subsidy. Nor can the statement be made that use of the phone system is similar to natural resource utilities, which are subject to the economics of supply and demand. It does not cost much more or much less to use the phone and electricity at any time of the day or night because the wire, facilities and switching mechanisms are already in place.

The regional holding companies are forcing ordinary ratepayers to subsidize the technological needs of a competitive business market, such as rapid data transmission, with little or no improvement to basic monopoly utility phone service to residential customers. The regional holding companies are trying, with some success, to double and triple basic phone service rates through such mechanisms as local measured service, a dial tone charge (this is a newly proposed fee by C&P Telephone Co. simply for receiving a dial tone -- basic service charges are additional), and attempting to deregulate intraLATA and intrastate phone service.

Citizen campaigns mounted to defeat the proposals in each state cannot match the resources and lobbying efforts expended by the local phone companies. Some of these citizen campaigns have succeeded, such as Texas, by force of argument and publicity demonstrating the flaws in the phone company's proposal and justification. However, this should not be an ad hoc effort. Rather, a standard and fair mechanism is necessary to bring together the needs and interests of residential telephone consumers. Through their telephone charges consumers are already paying every month for the advertising and misinformation campaigns of the local phone companies against their will and interest. Surely users should have a fair opportunity to organize and self-finance their own views.

The central problem threatening universal and affordable phone service since the breakup of AT&T is how to allocate the many different costs shared by local and long-distance services. As a monopoly, AT&T never had to use 'cost-based pricing'. So now we find ourselves, in the post-divestiture confusion, at a loss to find out what is the actual cost for particular services and equipment. A new, though controversial and expensive accounting system is needed, and this issue is still open for debate.

The state of Maine is currently attempting a 'stand alone cost study' by Dr. William Melody involving New England Telephone and consumers to determine cost allocation of facilities and equipment, as well as rate design issues. This study was prompted by the work of several consumer organizations. The Office of the People's Counsel in Florida, in another effort, recently won a suit to look at Southern Bell's books and figure out what their profit margin is and if their rate increases are justified or if a return of excess charges is warranted for its customers.

What seems to be emerging are two distinct classes of telephone users: the big business class and the rest of us. And in the interest of large corporations, the rest of us, the local telephone customers, are being made to subsidize its costs.

If the regional holding companies have their way, we will soon have to pay for installation, rental or purchase of a phone, wiring, local service, dial tone, interstate access and intrastate access before we even make a single telephone call. And the price tag for repairs is monumental: $22 for the first 15 minutes and at least $11 for each additional 15 minutes! It should be no surprise that competition and improved technology in long-distance service offer no solace to the elderly on fixed incomes, poor people, rural residents and highly concentrated urban dwellers who cannot afford to spend two or three times as much money on their phone service in a year's time. The more people who have to drop their subscription to telephone service, the more everyone else will have to pay. This would benefit neither the general public nor the phone companies' interests, not to mention the nation's interest in broad-based communications for all citizens. The value of a phone system is more related to how many people one can communicate with than with how much one likes a particular piece of equipment or service option.

The intervention of a consumer telephone association is precisely the public mechanism needed to argue for a cost-based pricing plan for local phone service before state regulatory commissions to preserve universal and affordable phone service.

The concept of the CUB is also appealing in that they are completely voluntary and are self-financed. Telephone consumer associations require no tax dollars; create no new bureaucracy; do not cost the phone company anything; cause no interference with phone company billing procedures, do not require the phone company to handle the groups' money and; do not duplicate the activities or preempt the functions of state consumer representation or private groups.

Although several states already have established special commissions or authorized attorneys general to represent interests of telephone consumers, telephone consumer associations are necessary to represent residential ratepayers for five reasons.

First, these associations would be immediately accountable to the interests of its members. Similar to the Wisconsin CUB model, the framework of H.R. 4102 establishes an independently financed association, supported by annual membership fees, and with annual elections of the associations' boards of directors. This active financial and democratic involvement will encourage consumer awareness and organizational strength, and, in turn, enhance the legitimacy and influence of telephone consumer interests.

Second, a well-established telephone consumers association - responsive only to the interests of telephone consumers - may represent politically-sensitive interests without fear of reprisal. Although state commissions and attorneys general may often wish to represent interests of telephone conusmers, conflicting political pressures may prevent complete and effective representation.

Third, budget and time constraints may frustrate a complete and specialized analysis by state commissions and attorneys general of issues affecting telephone consumers which require study and testimony. In this sense, telephone consumer associations complement the work of state commissions and attorneys general. They could provide state consumer agencies with additional resources, such as specialized studies, supporting documentation, and overall expertise on telephone issues.

Fourth, the flexibility of the telephone consumers associations allow the associations to represent telephone consumer interests in ways usually unavailable to a state commission or attorney general. For example, in Wisconsin, the citizens utility board mobilized a campaign to gather public support for the attorney general's position against the establishment of utility holding companies. Working alone, the attorney general could not have mobilized such support.

Finally, when the commission or attorney general disagrees with the telephone consumer association, their opposing viewpoints can only help the decision-making process. Diversity of opinion often encourages clarification of the issues and illustrates the weaknesses and strengths of each position. There is better knowledge about the implications of the decision.

In summary, the telephone citizen utility board would allow residential customers in each state to create a private, nonprofit association that, through a democratic structure, effectively represents the interests of consumers before state and federal government bodies.

The following are general guidelines set down by the House passed legislation to create telephone consumer associations in each state:

All residential telephone customers who are at least 16 years old and who pay the membership fee (at least $5 per year) may join the association.

Each association has the power to intervene in state and federal telephone proceedings that affect consumers' interests. Each association may insert membership solicitations and information notices in telephone company billing notices. Each association must contribute at least 10 percent of its resources to create a resource center that does technical research and may intervene in federal proceedings for all the state associations. The associations must reimburse telephone carriers for all costs related to inclusion of the association insert in phone bills, except for the postage cost of an enclosure less than 35/100 ounce.

The associations' board of directors is selected by the members, in staggered three-year terms, from distinct geographic areas in the state. Candidates for the Board must submit financial disclosure statements, and may not have a conflict of interest.

The Governors of each state select an interim board of directors that set up the associations, prepare the telephone inserts, and run the association until the first board of directors in elected (interim board members may not serve on the first elected board).

No associations are started in states that already have created or have organizations structured like these associations.

Telephone companies, their agents or employees are subject to a civil fine for interfering with the operations or election process of the associations.

In conclusion, I would like to point out that the need presented for telephone consumer associations is in all of the parties' interest. Currently, 7 percent of all households in the U.S., about 2 million households, do not have a telephone. If the Pearl study by the old Bell Operating Companies is true, a $10 per month increase in the phone rate for local service will mean a 10.6 percent drop in all households without a telephone, 30.7 percent of them poor and 16.6 percent moderately poor. If local rates increase $20 per month, 15.9 percent of all households will drop off, with 40.5 percent being poor people and 24.9 percent of moderately poor means.

With 93 percent of all households maintaining telephone service in the U.S., these increases would mean that 8.5 million and 12.7 million households will not be connected to the telephone system. Such a drop would mean the U.S.A., with the best telephone system in the world, no longer believes in universal telephone service.

The public must be educated and involved in the rate-making process for universal and affordable phone service to be secured. Intervention through public participation encourages quality debate, more just rates and a priority on local phone service over profit margins and lucrative competition in the business markets. H.R. 4102 is the necessary pledge to Americans as a legislative commitment to universal and affordable service. It would allow the public to finance their own consumer advocacy, instead of just paying for the regional holding companies' campaigns for higher bills and few, if any, benefits to plain old phone service locally.

Thank you, Mr. Chairman and members of the task force, for the opportunity to present my views today.

Mr. **Wyden**. Our next witness, Mr. Lilly, represents the American Association of Retired Persons. We are very happy to have you, and we will make a copy of your prepared statement a part of the record, and you just summarize your key remarks. That would be helpful.

TESTIMONY OF JAMES L. LILLY, VICE CHAIRMAN, TEXAS STATE LEGISLATIVE COMMITTEE, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. **Lilly**. Thank you very much.

I appreciate the opportunity to appear before you to present this testimony.

By way of background, my testimony is based primarily on the experience that we have had in Texas on two of the issues under consideration today. That is this matter of access charges, and local measured service.

I have testified on both of these issues in two major cases before our Public Utility Commission in Texas. I am not familiar with all of the proposals that have been filed by the other operating companies throughout the country, so I must assume that the essential issues are similar, if not identical.

So, with that background, along with one other comment I think that we are all aware that the telephone is a basic tool of communication in our modern society. It is a tool that is used by all components of our society, without regard to age, income level, social status, geographic region, ethnic background, or any other subgroup that you could identify. It is a tool that in our view must be continued in this country.

Now, to the matter of access fees. This can be a very complicated issue or in my view it can be a simple identification of the issues involved.

First off, access fees per se in our judgment is too broad a term. We have to start looking at what is behind this matter of access fees. We are all aware that they emanate from joint usage of local exchange facilities and equipment. In that sense, "access fees" have been paid perennially and continue to be paid perennially by all local telephone subscribers. Mainly that is what the monthly flat rate fee is. It is an access predominantly to that network.

According to Southwestern Bell's figures, 75 to 80 percent of the cost of operating that local network is fixed, has nothing to do with usage whatsoever—so how else can we describe that 75 to 80 percent other than simply an access fee to the network?

Now, we look at the long-distance aspect of it. That takes on five chacteristics. The residential customer has already paid his access fee to the system when he pays his monthly bill. The difference in the case, as we understand it, since divestiture, is the fact that now there are other competitive industries accessing that same local exchange. So it becomes a shell game.

Who is going to pay? As was testified earlier today, we like to think that we want to be fair in this whole area. We feel that each user of the local operating facilities should pay their fair share. Even for the residential customer, a way to require the residential customer making long-distance calls, without charging others who never make a long-distance call, an additional fee—a simple way to do that in our view is merely charge or require the long-distance carriers and other related users of this local system to share the burden of the additional access fees that keep being talked about.

This could be very simple. Obviously, it would be included in the total charge or total usage. I think in the major rate cases in Texas, the first of May or June, sometime about that time period, Southwestern Bell—and incidentally access charges was the major factor in that rate case, among many others—but PUC, pardon me, Southwestern Bell requested a $1.8 billion increase. They later revised that down to $1.37 billion. They finally wound up being granted $816.7 million, but of that total amount awarded, I think it is significant to note that $668.9 million of that was in access charges levied on the long-distance carrier.

We think this is good because the local customers have already been paying it. They paid a token amount. $27.8 million did come from the local customers. It amounted to 30, something like 30 cents per customer per month, which is reasonable, we can live with that.

There are some other factors but I realize time is late, so I will move on.

The next matter that has been discussed quite a bit has been this matter of local measured service. That was filed as a separate document No. 5547, in Texas. I have made available to you a chart which, according to the Chinese, is worth 1,000 words, I will try to rely on the chart. This reflects what local measured service, four elements of local measured service based on number of calls, time of day, distance called or time circumstance is used; you might be on hold listening to sweet music. But this chart portrays in the first 3 hours for bar graphs on the left, the flat rate charges for eight-party, four-party, two-party, and single-line residential service. It varies from $4.10 for eight-party, to $5 for four-party, $5.90 for two party to $9.10 for single-line.

Now, that doesn't consider necessarily the absolute value of these because these will vary from exchange to exchange. These are the current values for class four, which is the majority of medium-size cities in Texas.

The next bar depicts the cost to the customer, residential customers of what is referred to as one measured rate. The Utility Commission of Texas has called this economy service. That allows you to make 25 calls for a flat fee of $4.55. Anything above that per month costs you 8 cents a call.

So, consider this several ways. For the equivalent of flat rate unlimited service of $9.10, you could under one measured rate, economy service, make approximately 82 calls per month.

Now the rest of these bars on here relate to local measured service as filed by Southwestern Bell in their tariff revision request based on the four-element local measured service. I was finally able to obtain, from Southwestern Bell, a filing for usage, average residential usage. I have not been able to get it by distribution, as I have requested it, but I did finally get a figure. According to their information, the residential customers in Texas make an average of 150 calls per month, and the duration of those calls is from 4 to 5 minutes.

So, putting a pencil to those figures, we come up with the next three bar columns, that is, one column for the distance variables, zero to 15 miles, the next number for 16 to 30 miles and finally for 31 miles plus.

Now, if you want to know what impact local measured service would have on residential rates, you have it graphically depicted there. For the average residential customer, making the average 150 calls per month, over 4 to 5 minutes duration, within a 15-mile radius, that customer would be paying $21.60 per month plus taxes, of course, as compared to $9.10 a month to make as many calls as he or she wants any time of day anywhere in the local exchange area.

The next variable, of course, that compared to $29.10 if those average calls were from 15 to 30, and then it goes on up. It is also significant to point out, I think, that these are average figures. If the average residential customer is paying $21.60, that means half of them are paying more than that. It can run on up to $40, $50, $60 a month.

But it seems that our operating companies, and they are nice guys individually, just take some exception to their component policy, they seem to be saying local measured service is a great saver. Nothing could be further from the truth. When I pin them down, they say, "Well, about 6 to 7 percent save." How about the other 94 or 95 percent or 93? They are going to be paying more. Of course, it is the other side of the coin.

In general, you may have some questions. If not, I will give you some time back. I think we could summarize our assessment as to how proposed access fees and local measured service will affect residential users by saying, first, we support the 50-year effort to make universal telephone service available in this country. We think it has served the country well, and we urge that it continue to be pursued aggressively as a national policy.

Second, the rash of requests for significant rate increases, new type charges such as access fees, new pricing and billing methods, such as local measured service, have already had an adverse emotional effect on many older persons in this country. It is hard to measure the agony that an older person goes through, just the fear when the media is covered with all of this, your telephone rates are going to double; they are going to triple yours over that gentleman's; some of us I guess can wash that off or let it run off, but to many older people it becomes an agonizing experience.

How you measure it I don't know. I am sure we don't want to measure it by forcing them off of the system and then counting how many were victims of this system. That is not an acceptable solution. So how to quantify the effect, I am not sure.

I will say that if such proposals were approved, it would seriously threaten the continued availability of telephone service at reasonable and affordable rates for a sizable percentage of our national population.

Third, there is a dilemma here. Something has to give. In listening to and preparing testimony for these recent cases, filed with the State commission, it became abundantly clear to us that the most fertile fields for action to insure the continued availability of universal telephone service would be in more efficient planning and management of local exchange networks by the industry.

For example, it is my understanding that right there in Texas, just outside of Houston, there is sitting vacant a brand new $20.5 million building built by the carrier. It has never been used. In the last testimony they had no plan for using it; yet it is in the rate base of this filing that we have just finished. Just an example.

Another is reduction of local network operating cost. There are many, it is our conviction, opportunities for increased efficiencies in that area, and subsequent reduction or holding of the line on local rates.

More realistic depreciation schedules and cost allocation schedules for dividing out the fair share of the expenses of associating with using this common facility. An example of this, I believe that it was stated by the Southwestern Bell officials that this initial reduction in their generating increase, from 0.8 something to 1.3, was a result of some kind of revision of the depreciation schedules. I am not familiar with the details. This is what we are talking about there.

And, fourth, a more realistic projection of the rates of returns to the stockholders on invested capital. A specific example there I don't know what it is in other States, but a 1-percent dividend in the approved rate of return to investments makes a difference of approximately $50 million to the ratepayers in the State of Texas alone. It is a little bitty amount when you say 1 percent, but when you start multiplying that by the tremendous cost and number of subscribers, it becomes significant.

Incidentally, as an aside, if you want a standard, why wouldn't it be appropriate to relate the dividends or return to stockholders to, for example, the prime rate of the test period being considered? I realize there are problems in all of these areas, but something has to give.

Finally, on the matter of local measured service, the institution of local measured service based on the number of calls, time of day, distance, duration, would adversely affect the quality of life, the lifestyles and the continued availability of universal service. I can cite example after example. Time does not permit it.

The conclusion is that local measured service is, in our view, an unacceptable option for pricing local telephone service.

[Mr. Lilly's prepared statement follows:]

PREPARED STATEMENT OF JAMES L. LILLY, VICE CHAIRMAN, TEXAS STATE LEGISLATIVE COMMITTEE, AMERICAN ASSOCIATION OF RETIRED PERSONS

I am James L. Lilly, Vice Chairman of the Texas State Legislative Committee of the American Association of Retired Persons (AARP). This committee, consisting of 23 volunteers chosen from a statewide constituency of over 810,000 members in Texas, represents the members in legislative and related matters affecting older Texans. I appreciate the opportunity to appear before you today as a spokesman for AARP nationally.

I am here to express our opposition to optional Local Measured Service, as well as to the end-user charge for residential customers. AARP opposes adoption of Local Measured Service (LMS) rate structures by telephone utilities in the absence of any convincing evidence that LMS will not adversely affect the quality of life of older Americans -- particularly the low-income, handicapped and homebound.

A nationwide survey of older Americans was conducted for AARP in October, 1981, to determine, among other things, the views of older Americans concerning telephone usage and telephone rate structures. This study, conducted by Hamilton and Staff, surveyed a representative sample of 1502 persons age 55 and older. The survey revealed that:

1. Older Americans reported that they use the telephone more than when they were 10-15 years younger.
2. A clear majority (74 percent) claimed that the telephone was more important as a means of staying in touch with relatives and friends than when they were younger.

3. A majority of older consumers (53 percent) opposed a local billing system based on such factors as number of calls, length of call, time of day, or distance called.

In view of these findings, AARP opposes the adoption of LMS tariffs, even on an optional basis, until such time as clear and convincing evidence is available to demonstrate that it will not adversely affect the quality of life, lifestyles and availability of universal telephone service at reasonable and affordable rates for all older Americans.

The remainder of my testimony concerns itself with the optional Local Measured Service and Lifeline Residence Service (LRS) tariff revisions requested by Southwestern Bell Company on Docket #5547. I testified against this proposal at a public hearing in Austin, Texas, on May 14, 1984. I am not familiar with all the LMS proposals that have been made by the telephone operating companies across the country so that I have to assume that the Southwestern Bell proposal is typical of proposed tariffs filed in other states, and that the reaction of the Texas Legislative Committee of AARP is typical of the reaction to other operating companies' proposals.

With regard to the proposals in this particular docket, we are very concerned about the incomplete, misleading, and deceptive information being disseminated by Southwestern Bell (SWB) officials through the media, and numerous briefings being held throughout the state in an attempt to obtain public support for their measured service plan. Some of these concerns are:

1. SWB reports that their survey conducted in late summer of 1983 by Peter Merrill Associates "showed a definite customer interest in local measured service" and "was a major factor in Southwestern Bell's decision to file a proposed local measure service plan with the PUC". The "definite customer interest" was apparently concluded from responses to questions as to "whether they (the Respondents) would choose flat rate service or measured service if:

(a) Flat Rate was $10 and LMS was $5;

(b) Flat Rate was $22 and LMS was $11; or

(c) Flat Rate was $34 and LMS was $17.

Recognizing that these questions were posed as hypothetical situations, they posed a very unrealistic set of conditions for the respondents and thus produced responses inappropriate for use as a basis for generalizing about the extent of consumer interest in LMS as proposed by SWB. In fact, the study report itself noted that "these results do not constitute a demand for LMS. The results simply reflect that at various rate levels, consumers would be interested in examining a pricing option." Therefore, did the study show "a definite customer interest in local measured service" or did it merely demonstrate that consumers become increasingly interested in seeking viable options when the price of a commodity or service becomes unacceptably high, such as that posed in the hypothetical situation?

2. SWB infers that the LMS option will be cheaper for many of the residential customers and that a sizable number of

customers would be well advised to switch to this type of service if and when it becomes available. An analysis of rates for existing flat rate service and the proposed LMS reveals quite the contrary. LMS would be some 9 percent higher for any residential consumer who averages as few as one 4-5 minute call per day to his next door neighbor. If the call next door lasted 29-30 minutes instead of 4-5 minutes, the LMS charge would be some 137 percent higher than the flat rate service.

Under flat rate service, the current charge for cities in Rate Group 4, for one-party residential service, is $8.80 per month. This entitles the customer, using his own instrument, to make as many calls as he chooses, talk as long as he chooses, any time, day or night, to any other customer in the local exchange area with no additional charges except for taxes. This is what residential consumers have historically considered to be basic telephone service. It is interesting to note that SWB is now calling this "flat rate premium service". What is "premium" about it?

Under the proposed LMS, the charge for rate group 4 cities for one-party residential service (before taxes) would be $6.60 per month plus "usage charges". These "usage charges" would be 4 cents for the initial minute of each call made, plus an additional 1.5 cents for each additional minute the line is used (to talk, to listen, or be placed on hold), to call another customer within a distance of 0-15 miles (between switching offices). If the party called is within a distance of 16-30 miles, there would be an additional charge of one cent for each minute. If the party called is beyond 30 miles, the usage charge would be 5.5 cents for the initial minute, plus 3 cents for each additional minute. These usage charges only -- not the basic $6.60 -- would be discounted 50 percent if the call is made between either 7:00 and 8:00 a.m. or between 10:00 and 11:00 p.m. on weekdays (Monday through Friday), or between 7:00 a.m. and 11:00 p.m. on Saturdays, Sundays and Holidays. These usage charges would be discounted 75 percent if the call is made between 11:00 p.m. and 7:00 a.m. any day of the week. No usage charge would be made for calls to Directory Assistance, repair, the telephone business office, or a 911 number. However, a one-time regular service connection charge of approximately $20 would be made to convert to LMS unless the conversion is applied for within 180 days after such service is available.

If all of this about LMS sounds complicated and difficult to comprehend, that is exactly what it is -- so complicated that it would be virtually impossible for the residential customer to verify his monthly telephone bill. Consider the difficulty presently encountered in verifying monthly billings for long-distance calls, and the problems associated with getting a credit for calls erroneously charged to your number which you did not make. With LMS, the problem would be similar but many times more difficult, if not impossible.

If a customer did decide to try to verify his monthly charges, a detailed billing, if arranged for in advance, could be obtained for an additional charge of $1 per month, plus one cent for each printed message, plus a one-time charge of $20 to initiate or terminate the detailed billing. Such detailed billing, it is assumed, would show the date, time, number called, duration of the call, and charge for each such local call similar to the current billing for long distance calls. Consider, if you will, the effect that such a listing of personal information floating around the house, and maybe elsewhere, might have on the domestic tranquility of many households. Hopefully, the listing would not include what was said -- or maybe it should, in some instances.

Notwithstanding the complexities of LMS, the bottom line is: How does the cost of LMS compare with the cost of flat rate service?

Under the proposed LMS tariff, a residential customer in a rate group 4 city would have access to a telephone line and could receive incoming calls 24 hours a day from anywhere in the world (including unsolicited sales calls) for a monthly charge of only $6.60 per month, if he owns his telephone instrument. However, if the customer chooses to make an outgoing call to someone else, as practically every customer would want to do, additional "usage charges" would be incurred on the four elements previously mentioned.

For example, a customer averaging only two local calls a day during a 30-day month to a party in the 0-15 mile range, between 8:00 a.m. and 10:00 p.m., and using the line for only 4-5 minutes, would incur a usage charge of $9.00 for the month (disregarding the token discount for calls made on Saturdays, Sundays and holidays). The customer's total bill for the month would be $15.60 for this very limited usage under LMS compared to only $8.80 under flat rate service -- almost double. If the calls were 29-30 minute calls instead of 4-5 minute calls, the bill under LMS would be $35.10 compared to only $8.80 under flat rate service -- almost four times higher.

It is difficult to imagine why any significant number of prudent consumers would choose LMS over flat rate service under such conditions, unless they are misled with incomplete and/or erroneous information. In fact, SWB reports that "perhaps only 1-2 percent of our customers will have LMS in the first few years". Therefore, is it really cost effective and in the best interest of the consumers for SWB to spend "approximately $11 million" of the consumer's money to implement this complex optional service for such a small percentage of anticipated users?

3. SWB reports that LMS has been "in place in some parts of the nation for many years" and that "LMS has been tried and proven". What evidence is available to support this conclusion? Under what conditions and where has it been tried and found to be successful and for whom -- the utility company or the consumers, and to what extent? We have received reports from areas in Texas where LMS has been available which reveal that the vital "telephone trees" organized by senior citizens and other

community organizations have folded because of LMS. How widespread has this been, and what adverse effect has it had on the programs of these organizations and the quality of life for the individuals concerned?

4. The information sheets being distributed by SWB personnel at the various briefing sessions and speaking engagements throughout the state contain numerous other statements, assertions, allegations and inconsistencies to support their LMS proposal without any specific evidence or quantitative data to support such statements. The question is not, "Where's the Beef?", but rather, "Where's the Evidence?".

With respect to the SWB proposal to institute a "Lifeline Service for Qualified Persons", we are in sympathy with the proposal if: (1) this service is made available to all low-income residential customers, but particularly those who are elderly, handicapped, and homebound; (2) it can be demonstrated to be cost effective for the utility and the residential users; and (3) it is offered on an optional basis with a rate structure which will ensure that the maximum monthly billing for such service does not exceed the cost of flat rate service.

With regard to the proposal to discontinue the existing "one-element service offerings for residential customers", we are curious as to why such offerings are proposed for discontinuance. Very few customers are aware that this type of service has been available to them. Where is it available? When did it become available? What publicity has been given to its availability?

How widely has this service been used and by what type of customer? What have been the advantages and disadvantages from SWB's and the customer's point of view? How satisfactory has this type of service been for the customers using the service? Why is this service being "proposed for deletion from the local exchange tariffs"? It may well be that this type of service would be an attractive alternative to current SWB customers if its availability were more widely publicized along with factual data concerning the advantages and disadvantages of this type of service based on consumer satisfaction surveys.

In addition to its impact on individual subscribers, LMS will also have an effect on service providers. Social service agencies may have to curtail services they now provide by phone. The nation's 550 Area Agencies on Aging, for example, make over 11 million calls per year to homebound, frail elderly persons for the purpose of providing reassurance. The Atlanta Regional Commission has estimated that almost 19,000 individuals currently need telephone reassurance services in the Atlanta Metro area. United Way agencies nationwide are heavily involved in information and referral programs. At the Atlanta Regional Commission, 2,299 calls were received by the Agency in a four-month period between March 1 and June 30, 1982, inquiring about the availability of housing, health services, and nutrition services.

As LMS is applied to residences, businesses, and local government, one can reasonably expect that these agencies will provide less support, counseling, and reassurance to elderly persons. Outreach programs conducted by the Agencies to identify and serve elderly persons most in need will be greatly hindered by LMS. This development would certainly not help older people remain at home in a semi-independent status and would probably increase the isolation already experienced by many older people. LMS is at cross-purposes with the charge of the Community Care Act which is to "assist functionally impaired elderly persons in living dignified and reasonably independent lives in their own homes".

Nor do all the economic factors necessarily argue in favor of LMS. That is, it may not further economic efficiency as much as has sometimes been thought. Some analysts have made the point that the widespread adoption of LMS may increase peak loads and therefore the need for additional capacity. Since the largest part of costs in the telephone industry are determined by the amount of investment in it, adding to capacity to meet peak loads adds directly to the costs, and also, not incidentally, to the rate base of the telephone operating companies.

With respect to the question posed by the Task Force on the impact of the proposed customer access fees (or charges) on telephone users, and on the percentage of households with telephones, I am sorry to say that AARP does not have any data that would help to answer that question. The few estimates we have seen show considerable variation, the result, probably, of the differing methodologies and assumptions used.

As the Task Force is probably aware, AARP supported H.R. 4102 when it was being considered by the House, primarily because of the provision requiring state public utility commissions to establish "lifeline" rates for lower-income telephone users. We continue to believe in the importance of preserving the availability of telephone service for low-income persons, including low-income elderly. However, we believe that alternative means of financing the programs should be considered. Specifically, all or a part of the proceeds of the telephone excise tax could be devoted to financing lifeline service. This method of financing is preferable to the financing method set up by H.R. 4102, which would levy a surcharge on the fees paid by long distance carriers to get access to local telephone switches, and thus would continue the pattern of cross-subsidies which has characterized the industry in the past, and also encourage "bypass" of the public network.

In addition, and in view of the differences between the two Houses of Congress, we think it might be advisable to drop the prohibition of the consumer access charge contained in H.R. 4102 until such time as it can be determined what the impact of such a charge would be and whether alternative solutions are preferable.

I thank you again for the opportunity to appear before you today to express the views of our organization with respect to the proposal under consideration.

Mr. **Wyden**. Thank you very much.

Mr. **Lilly**. Thank you.

Mr. **Wyden**. Thank you for an excellent statement, and it is clear that you have spent a lot of time studying these issues, and that is what it is going to take for us to reach some realistic solutions, and I congratulate you for it.

Mr. **Lilly**. Thank you very much.

Mr. **Wyden**. Mr. Simon, if you would please just summarize your statement. We will make a prepared copy part of the record, and I know we are going to have as many questions of this panel as we are likely to have time. Please proceed.

TESTIMONY OF SAMUEL A. SIMON, EXECUTIVE DIRECTOR, TELECOMMUNICATIONS RESEARCH & ACTION CENTER

Mr. **Simon**. Thank you very much, Chairman Wyden, members of the task force.

The focus of my testimony today is on the rapid move toward local measured service or usage sensitive pricing throughout the United States and the significance of that movement for the residential and small business telephone subscribers. I will also touch upon the question of access fees.

The telephone industry, in particular AT&T, has sought for more than a decade to change the way local telephone customers pay for their service from the standard flat rate method to what it has called usage sensitive pricing—USP. USP is more widely known as local measured service or LMS. More recently, the telephone industry has come up with the name of optional measured service, OMS.

By whatever name, however, LMS, USP, or OMS, what we are talking about is a method of billing for local calls just like we have for long-distance calls according to four elements: The fact of the call—a unit element; the length of a call—a duration element; the place called—a distance element; the time of day—a peak load factor.

For years these arguments were not well received. Efforts to adopt local measured service met tremendous consumer resistance. Although a few States did adopt some form of message rate service—a flat charge per call, as of June 1983, only two States had a four-element measured service plan. Today, 33 States have optional measured service plans that have distance and duration elements. Six States are experimenting with measured service plans and nine States have no measured service at all, either optional or experimental.

Recently, TRAC conducted its own survey of these jurisdictions to determine the status of local measured service around the Nation. We noticed a significant trend toward adoption of the service. I have attached our local measured service scorecard to my testimony.

Most States have acted since the divestiture of AT&T was announced in December 1981. It is apparent the local companies are using the divestiture and divestiture-related proceedings to secure adoption of the LMS.

We oppose measured service in any form—optional or otherwise—that has an element of the service billing based on distance or duration.

Our research indicates that LMS cannot be supported on economic grounds, that it is not fair and that it flies in the face of public policy. Since it is the obligation of State regulatory authorities to approve rate structures that are in the public interest, we oppose approval of LMS even as an option. Finally LMS encourages bypass of the local network by heavy users of local service and, therefore, poses a serious threat to universal telephone service.

LMS is not economically efficient. A rate design from the perspective of a local company should promote efficient use of the telephone system.

Bridger Mitchell, an economist with the Rand Corp. in Santa Monica, in a study on local measured service, concluded that the cost of implementing local measured service often exceeds the economic benefits achieved through more efficient use of the telephone plant.

LMS is not a cost-based price. The telephone company has never been able to show the actual cost of the discrete elements by which it proposes to charge for local service. Indeed, its decision to select different elements to measure is largely based on convenience and what the phone company perceives regulators and consumers will tolerate. For example, a call attempt imposes the same cost on the system as a completed call, but there is no charge for attempted calls.

LMS is not a fair rate design. Measured service is unfair. With measured service, consumers have the least control over their telephone bill. Moreover, they have no control over how long the other person engages in a conversation or places them on hold.

When do consumers need the phone the most? Usually, during times of personal crisis and special need—times when they are likely to be least able to afford additional costs. But it is just during this time that LMS has its most direct impact, increasing significantly the cost of local service.

LMS raises a serious privacy issue. Local measured service, whether optional or mandatory, raises a serious privacy concern. For the first time in history a permanent record of personal local calling habits will be generated and available. Without LMS there is no record, we need no protections. It is only once we start keeping these records that we have to develop security measures—a cost of implementing LMS not treated in normal analysis of these services.

LMS is contrary to good public policy. There are strong public policy reasons that argue against adopting or permitting optional measured service. To begin with, optional measured service gives all the wrong economic signals to the company. The Communications Act of 1934 as well as general public policy is to promote universal telephone service at reasonable and affordable rates for all citizens. This is best achieved when the incentive to the company is to increase revenues by adding customers. A measured service, which relies on intensity of usage to increase revenues, has the opposite effect. The incentive is to increase usage by those consumers on measured service with disposable income and spend on the purchase of telecommunications service.

Moreover, it is important to note that regulation of telephone service is and should be considerably different than regulation of other utilities. Public policy considerations in the regulation of natural gas and electric service include as elements of regulation the goal of conservation of a scarce natural resource. Thus, with respect to natural gas or electricity, pricing policy, and rate design for those services need to include the consideration of conservation.

The same consideration does not apply with respect to telephone service. I am aware of no public policy consideration that should encourage conservation or less usage of the telephone or telecommunications in our communities. Saying hello does not utilize a scarce natural resource.

LMS will have unintended social and economic consequences. Voluntarism in America is in many ways built on the use of the telephone. "Telephone Trees," are communication networks used to mobilize a community around an event or a need. LMS attaches a significant cost to that activity that does not exist today.

LMS will encourage bypass of the local phone system. With every call being charged by the unit and the minute, combined with flat rate access charges, the incentive for local exchange customers to leave the local system increases. And despite the popular belief such options don't exist for local customers, some forms of local bypass do exist and are available to even small businesses.

LMS isn't needed to catch data users. Other forms of bypass will also be encouraged by local measured service. One of the main arguments for local measured service is the increased use of the local exchange for data purposes.

There is currently pending before the FCC a proceeding that may permit local operating companies to offer a parallel data service over separate switching facilities. NYNEX refers to this as PODS or plain old data service, the equivalent of POTS, plain old telephone service for voice. If implemented, a significant part of the data use of the local plant will be shifted and charged separately for the data service.

Indeed, read how NYNEX described in its pleading the benefits of PODS:

> LPS, with its separate data network, would also have the concomitant effect of allowing the company to charge data customers for the costs of the network they use. Presently, as data increasingly occupies the voice switched network, the necessity for expansion of basic plant facilities to accommodate the increased load also falls on basic rate payers who use the network for voice communications.

Measured service, however, is a bankrupt concept. It was developed at an earlier time based on assumptions that are no longer valid, even for the local telephone company.

Indeed, talk to local telephone company personnel, and they will say, prefacing the remark with a hushed off the record, that even they don't believe in it any longer.

If support for LMS is beginning to erode, it is being replaced by the new favorite telephone pricing idea: Consumer access line charges, or CALC's.

It is evident that the repricing of local telephone service is having a disproportionate impact on the user of local exchange services.

Thank you very much, Mr. Chairman.

[Mr. Simon's prepared statement follows:]

PREPARED STATEMENT OF SAMUEL A. SIMON, EXECUTIVE DIRECTOR, TELECOMMUNICATIONS RESEARCH & ACTION CENTER

Chairman Wyden, members of the Subcommittee, thank you very much for the invitation to appear today to present testimony about the impact of changes in telephone pricing on residential and small business consumers.

The Telecommunications Research and Action Center (TRAC), is the oldest and largest media reform organization in the United States, with 15,000 members nationwide. TRAC has been extremely active on behalf of the telephone consumer from before the divestiture, having published our popular book Reverse the Charges, How To Save Money on Your Telephone Bill in 1981. The book was distributed by Book-of-The-Month Club as its pro-bono selection for the Summer of 1983. In addition to Reverse the Charges, I have authored a book entitled Tele-Consumers and the Future: A Manual on the AT&T Divestiture which will soon be published by Knowledge Industries. TRAC's quarterly newsletter, Tele-Tips provides our members with information about our activities and how to save money on their telephone bills.

TRAC has presented testimony on many of the issues surrounding repricing before state public utility commissions and state legislatures, as well as before Congress.

The focus of my testimony today is on the rapid move toward local measured service or usage sensitive pricing throughout the United States and the significance of that movement for the residential and small business telephone subscribers. I will also touch upon the question of access fees, by-pass and the impact on local service. Finally, I will present an eight point program for local telephone companies.

LOCAL MEASURED SERVICE

The telephone industry, in particular AT&T, has sought for more than a decade to change the way local telephone customers pay for their service from the standard flat rate method to what it has called usage sensitive pricing--USP. USP is more widely known as local measured service or LMS. More recently, the telephone industry has come up with the name of Optional Measured Service--OMS. By whatever name, however,--LMS, USP, or OMS-- what we are talking about is a method of billing for local calls just like we have for long distance calls according to four elements:

- The fact of the call--a unit element
- The length of the call--a duration element
- The place called--a distance element
- The time of day--a peak load factor

The reason the telephone industry wants USP is simple and obvious--to increase revenues and provide itself with greater control over its revenue stream. Telephone analysts and experts will readily admit in private that LMS is designed to acheive these two basic goals:

1. To increase revenues through increased utilization of existing plant; and

2. To provide the local company flexibility to increase revenues without the necessity of applying for a rate increase by promoting usage.

Of course, this is not what we hear from the industry during rate proceedings. Instead, their arguments for LMS are couched in mutually contradictory terms of either economic efficiency or fairness. And in most instances, it is promoted as means to provide low income users with a low cost option as basic flat rates continue to increase.

The phone industry argues that measured service is a form or cost based pricing, one of the watchwords of the repricing movement. It is also suggested that those who talk and call more cause more costs which should appropriately be assigned to them. The industry argues in the alternative, that in any case it is fairer that those who use the system more pay more.

For years these arguments were not well received. Efforts to adopt local measured service met tremendous consumer resistance. Although a few states did adopt some form of message rate service--a flat charge per call, as of June, 1983, only two states had a four-element measured service plan. Today, 33 States have Optional Measured Service plans that have distance and duration elements. Six states are experimenting with measured service plans and nine states have no measured service at all, either optional or experimental.

Recently, TRAC conducted its own survey of these jurisdictions to determine the status of local measured service around the nation. We noticed a significant trend toward adoption of the service. I have attached our Local Measured Service Scorecard to my testimony. The data was gathered as of July 1, 1984. Please note the trend. Most states have acted since the divestiture of AT&T was announced in December 1981. It is apparent the local companies are using the divestiture and divestiture-related proceedings to secure adoption of the LMS.

Of course, nothing to do with divestiture suggests that local measured service is appropriate or necessary. One of the most effective industry tactics, however, has been to recast measured service as one of several different service "options," and as a low cost option to help low volume users save money during a period of rapidly increasing flat rates.

The "optional" tag has been deceptively alluring to state regulators. It seems hard for them to resist the argument that consumers should be able to make their own decision and select measured service if it is their preference.

We oppose local measured service in any form--optional or otherwise--that has an element of the service billing based on distance or duration. The only justification for LMS is that it provides a new and more effective means to increase revenues to the telephone company without appropriate regulatory oversight.

Our research indicates that LMS cannot be supported on economic grounds, that it is not fair and that it flies in the face of public policy. Since it is the obligation of state regulatory authorities to approve rate structures that are in the public interest, we oppose approval of LMS even as an option. Finally, LMS encourages by-pass of the local network by heavy users of local service and therefore poses a serious threat to universal telephone service.

LMS is not economically efficient.

A rate design from the perspective of a local company should promote efficient use of the telephone system. LMS is often touted because it provides the local company a tool for peak load pricing by providing discounted service during non-peak periods.

Of course there are a number of tools available to local companies to promote more efficient use of the local system other than measuring every call by the minute. Indeed, Bridger Mitchell, an economist with the Rand Corporation in Santa Monica, in a study on local measured service, concluded that the cost of implementing local measured service often exceeds the economic benefits achieved through more efficient use of the telephone plant. Specifically, he says that if it is necessary to purchase the equipment needed to measure calls, then it probably is not cost-effective to measure service from the company perspective. If, however, the equipment is already in place, then an efficiency can be achieved, but only if the system is very carefully designed.

In the telephone industry, specific peak periods occur during the day. For example, it is virtually universal that mid-morning and early afternoon business day periods are peak calling periods, whereas early morning, noon time and late afternoon are off-peak times. Measured service proposals now in effect around the country do not seriously attempt to distinguish between these standard periods. Rather, where there are time of day discounts, they are generally divided between day time and night time. In the District of

Columbia, for example, the proposal was to charge off peak between 9 p.m. and 9 a.m., and to charge peak prices from 9 a.m. to 9 p.m.

And of course, peak load applies to specific local offices. Even measured service cannot distinguish between peak in the office that a call originates and peak in the local office in which a call terminates.

In any case, if peak load pricing is desireable and important, it can be achieved through the use of message unit pricing--charging by the call. Off peak calls, for example, could be free, while peak period calls could be charged at some rate such as $.05 per call.

LMS is not cost based

LMS is not a cost based price. The telephone company has never been able to show the actual cost of the discrete elements by which it proposes to charge for local service. Indeed, its decision to select different elements to measure is largely based on convenience and what the phone company perceives regulators and consumers will tolerate. For example, a call attempt imposes the same cost on the system as a completed call, but there is no charge for attempted calls.

According to one AT&T brochure on measured service

> With measured service . . . customers pay only for the amount of service they need and use, which is what they do with virtually all other goods and services.

But what does a telephone customer use once the telephone call is completed? There is no consumption of a tangible resource or product.

Rather, it is the occupation of space on existing switching equipment. According to Bridger Mitchell, the marginal cost of a single telephone call in an off-peak period is or approaches zero.

In other words, aside from a nominal set-up cost, off-peak telephone calls are virtually a free good.

LMS is not a fair rate design

Measured service is unfair. With measured service consumers have the least control over their telephone bill. Consumers can rarely control where they are to call and the length of time they spend on a call. A consumer cannot control where a relative or doctor is located with respect to their residence. Moreover, they have no control over how long the other person engages in a conversation or places them on hold.

Of particular concern to elderly and low income consumers is that with measured service they have little or no control over the size of their monthly telephone bill. For example, an elderly person who budgets $30.00 a month to telephone bills could be shocked when at the end of the month during which they have talked extensively the bill turns out to be $50.00 or more.

On reflection, you will realize just how unfair a billing system is that charges for phone service by the minute. When do consumers need the phone the most? Usually during times of personal crisis and special need--times when they are likely to be least able to afford additional costs. But it is just during this time that LMS has its most direct impact, increasing significantly the cost of local service. The telephone industry's LMS plan obviously can't distinguish between essential uses and those uses that are purely discretionary.

LMS raises a serious privacy issue.

Local measured service, whether optional or mandatory, raises a serious privacy concern. For the first time in history a permanent record of personal local calling habits will be generated and available. The mere existence of the record creates a new condition of potential harm to the consumer. Without LMS there is no record, we need no protections. It is only once we start keeping these records that we have to develop security measures--a cost of implementing LMS not treated in normal analysis of these services.

Further, the telephone bill is not an individual bill. It does not distinguish between users, so that everyone using the same telephone will have their calling patterns disclosed to everyone else when the bill comes.

With LMS, then, consumers who prefer not to worry every time they make a call about who will see it, might opt for flat rate service and will have to pay extra to do so.

LMS is contrary to good public policy

There are strong public reasons that argue against adopting or permitting optional measured service. To begin with, optional measured service gives all the wrong economic signals to the company. The Communications Act of 1934 as well as general public policy is to promote universal telephone service and reasonable and affordable rates for all citizens. This is best achieved when the incentive to the company is to increase revenues by adding customers. A measured service, which relies on intensity of usage to increase revenues, has the opposite effect. The incentive is to increase usage by those consumers on measured service with disposable income to spend on the purchase of telecommunications service.

Moreover, it is important to note that regulation of telephone service is and should be considerably different than regulation of other utilities. Public policy considerations in the regulation of natural gas and electric service include as elements of regulation the goal of conservation of a scarce natural resource. Thus, with respect to natural gas or electricity, pricing policy and rate design for those services need to include the consideration of conservation.

The same consideration does not apply with respect to telephone service. I am aware of no public policy consideration that should encourage conservation or less usage of the telephone or telecommunications in our communities. Saying "Hello" does not utilize a scarce natural resource. Indeed, public policy ought to be just the opposite, it should promote increased and enhanced social and economic intercourse by telecommunications facilities. Pricing policy and rate design ought to promote that particular public policy goal. Measured service which charges by the minute, thus penalizing usage, is not consistent with that public policy objective.

As indicated previously, the real concern in arriving at a rate design is efficient use of the system as opposed to conservation. Efficiency is achieved through peak load or time of day pricing, which can be achieved without measuring either distance or duration of a call.

LMS will have unintended social and economic consequences

Volunteerism in America is in many ways built on the use of the telephone. "Telephone Trees," are communication networks used to mobilize a community around an event or a need. LMS attaches a significant cost to that activity that does not exist today.

We don't expect volunteers to mail twenty or thirty first class letters at their own expense and we would not expect volunteers to spend twenty or thirty dollars making measured telephone calls.

This problem isn't unique to the social service arena. It will apply equally to the business community. Little things like asking an employee to make a call from home or working from home will suddenly involve new costs and administrative burdens. It will also discourage consumers from using the phone to call businesses or to shop by phone. It would not be suprising with measured service for local firms to begin using an "800" style local toll-free calling service.

LMS will encourage by-pass of the local phone system

At a recent conference a representative of the cable industry took the podium to begin a talk, but first thanked the telephone company for local measured service--suggesting that LMS was a primary incentive for local by-pass of the telephone system.

With every call being charged by the unit and the minute, combined with flat rate access charges, the incentive for local exchange customers to leave the local system increases. And despite the popular belief such options don't exist for local customers, some forms of local by-pass do exist and are available to even small businesses.

The most obvious form of local by-pass is the use of a local switch or PBX. A whole new industry is ready to develop that will focus on selling, installing and operating a PBX in apartment houses and office buildings.

The savings can be significant, especially with local measured service:

- There is a 20 to 30 percent reduction in the number of local telephone lines needed to accomodate the same number of telephone users in the building. The result is that the local fixed charge per line is saved and monthly fees to all users can be reduced.
- All calls on the switched network become free calls. Thus, in an apartment complex, a call within the complex would not be measured because it would be made through the private network. This could be very important as an incentive for residential users, since often local calling is focused among friends and neighbors.
- Start-up charges are saved. Since all lines are activated and terminated

internally, the consumers save the $70 to $100 phone company charges for starting new service.

- Least-cost routing can be offered thus providing small business and residential consumers access to a technology that today is available only to the largest users.

LMS isn't needed to catch data users.

Other forms of by-pass will also be encouraged by local measured service. One of the main arguments for local measured service is the increased use of the local exchange for data purposes. The concern expressed is that extensive data use of the local exchange will increase demand and hasten the day when new construction is required.

And in theory the argument is correct. If a particular use is creating peak pressure, that use should be identified and charged appropriately. But LMS is the least desireable method of accomplishing this goal.

First, measuring data use will create the incentive for data users to buy service from the local cable operator.

Second, there are options. There is currently pending before the FCC a proceeding that may permit local operating companies to offer a parallel data service over separate switching facilities. NYNEX refers to this as "PODS" or "Plain old data service," the equivalent of "POTS," "plain old telephone service" for voice. If implemented, a significant part of the data use of the local plant will be shifted and chargec separately for the data service. Indeed, read how NYNEX described in its pleading the benefits of PODS:

> LPS, with its separate data network, would also have the concomitant effect of allowing the Company to charge data customers for the costs of the network they use. Presently, as data increasingly occupies the voice switched network, the necessity for expansion of basic plant facilities to accomodate the increased load also falls on basic rate payers who use the network for voice communications.

Conclusion on LMS

Mr. Chairman, pardon the length and extensive nature of the testimony. It seems that with every response to LMS, the phone industry comes up with a new rational.

Measured service, however, is a bankrupt concept. It was developed at an earlier time based on assumptions that are no longer valid, even for the local telephone company.

Indeed, talk to local telephone company personnel and they will say--prefacing the remark with a hushed "off the record"--that even they don't believe in it any longer.

ACCESS CHARGES

If support for LMS is beginning to erode, it is being replaced by the new favorite telephone pricing idea--consumer access line charges, or CALCs.

As you know, business CALC's have just been implemented and it is probable that a modified CALC will be adopted by the FCC for residential users in June of 1985.

TRAC has strongly opposed CALC's from the beginning as unfair and discriminatory against the local exchange telephone user. We do not accept the telephone industry's concept of cost-causation. I often lament that the telephone company used to think of us as customers. Indeed, if the local telephone company continues to refer to its customers as cost causers, I suspect they will begin to think of them as cost causers. And after that they will start treating them as cost causers--and any telephone executive knows what to with cost and cost causers--get rid of them.

Seriously, it is evident that the repricing of local telephone service is having a disproportionate impact on the user of local exchange services. According to AT&T in a recently released pamphlet, long distance usage residential and business users is as follows:

- 73% of the residential customers spend less than $10 a month in long distance service.
- 86% of the business customers spend less than $50.00 month in long distance service.

Moreover, according to AT&T one-tenth of one percent of their long distance customers account for about 20% of their revenues.

Essentially, then, the access fee system is designed to lower the cost of long distance service and increase the cost of local service. Skipping for the moment whether it is justified or necessary, it is important to realize exactly what is happening.

Implementation of the FCC's repricing program of deloading toll onto the local exchange customer will simply lower the telephone expenses of the Fortune 500 and have the residential and small business users pick up the tab.

We do not accept the premises upon which repricing is based. Long distance users should pay a significant portion of the local exchange non-traffic sensitive plant. Marginal cost pricing for long distance use of the local plant is unacceptable.

I am sure that this subcommittee is well aware that the so called subsidy of local service by the long distance market is a gigantic myth--a big lie--upon which to base the repricing of long distance service. We are familiar with several studies which indicate that long distance may not in fact be paying its fair share of the local exchange cost. And Judge Harold Greene, less than a year ago, stated publicly that despite repeated claims and efforts, AT&T was never able to prove to him that a subsidy existed.

The primary justification for repricing is the threat of uneconomic by-pass. Whether by-pass is "economic" or "uneconomic" is simply a matter of pricing philosophy. Setting aside the basic debate on pricing, the issue of by-pass comes down essentially to the question of how to regulate large, unanticipated loss of demand on the local system. State rules that limit the ability of large users to leave the system without first considering the impact on capacity are reasonable and necessary.

Further, there is no public policy that says local phone companies have to grow or capture any particular percentage of the new communications market. As a regulated utility, the local telephone company should be concerned with providing efficient local switched telephone service. As long as by-pass does not result in stranded facilities--and state PUC's have jurisdiction to assure that is the case--then it is difficult to know why by-pass is such a problem.

A PROGRAM FOR LOCAL EXCHANGE SERVICE

It is perplexing and frustrating that local exchange companies continue to follow in lock step behind the FCC/AT&T repricing scheme when in fact the plan operates against the best interest of the majority of their customers. instead, they should be working on schemes to keep local rates low and the flow of interstate revenues into the local exchange market.

I suggest that an enlightened, pro-consumer policy by a local operating company would have different elements, as follows:

1. Develop a POTS rate plan--plain old voice telephone service at flat rates affordable for the typical residential customer--not more than $15 to $20 a month.

2. Develop less expensive low usage options available to those who want it based on message units--not measured by distance or duration.

3. Abandon measured service charging based on distance or duration, at least

for voice service. I warn you--it won't be worth the battle and the enmity with the customer base that the campaign for local measured service will cause.

4. Feel free to distinguish between basic and enhanced services. Charge what you will for enhanced services such as touch tone, custom calling, data services and the like.

5. Create a separate data network, using the same technology now in use for packet switching by larger customers. These networks will take pressure off of local plants caused by data users and enable you to charge discrete prices for data.

6. Resist deloading of toll. Invest your considerable energies in finding ways--and supporting policies--that discourage by-pass, but keep the flow of toll revenues to local companies. Just remember, according to AT&T 73% of the residential customers spend less than $10 a month on long distance; and 86% of the businesses spend less than $50 a month on long distance.

7. Find different ways for residential customers to pay less for more service. In other words, work earnestly to help consumers save money on their phone bills. Include PBX options, where appropriate.

8. Finally, start thinking of the residential telephone user as a valued customer--not as a cost causer.

Congress, for its part, can promote the development of such a plan by enacting into law H.R. 4102, which already passed the House of Representatives in November, 1983.

LOCAL MEASURED SERVICE SCORECARD[1]

STATE	STATUS	COMPANY	EFFECTIVE DATE
ALABAMA	NO	South Central Bell	
ARIZONA	Optional	Mountain Bell	January 1, 1983
ARKANSAS	Optional	Southwest Bell	July, 1980
CALIFORNIA	Optional	Pacific Bell	January, 1977
COLORADO	Optional	Mountain Bell	September 1, 1983
CONNECTICUT	Optional	Southern New England Tel.	December 1982
DELAWARE	Optional	Diamond State Tel.	August 19, 1980
DIST. OF COL.	NO	C&P Telephone	
FLORIDA	Experimental	Southern Bell	December 31,1978
GEORGIA	Experimental	Southern Bell	May 15, 1980
IDAHO	Optional	Mountain Bell	August 23, 1983
ILLINOIS	Optional	GTE Telephone Cos.	March 1, 1983
INDIANA	NO NO	Indiana Bell General Telephone	
IOWA	Experimental	Northwest Bell United Tel.	August, 1981 Sept., 1982
KANSAS	Optional	Southwestern Bell	October 1984
KENTUCKY	Optional	South Central Bell	January 1, 1984
LOUISIANA	Optional	South Central Bell	December 16, 1983
MAINE	NO	New England Tel.	

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1. Listed are states that have any rate plan that involves charging for local calls by the minute or by distance. Some states listed have LMS only in certain counties or in areas served by electronic switching equipment. Others have LMS only on an experimental basis. States that have an experiment are noted.

MARYLAND	Optional	C&P Telephone	January 1, 1984
MASSACHUSETTS	Experimental (one town)	New England Tel.	Nov. 9, 1983
MICHIGAN	NO	Michigan Bell	
MINNESOTA	Optional	Northwestern Bell	January 1, 1984
MISSISSIPPI	Optional	South Central Bell	July 13, 1980
MISSOURI	Optional	Southwestern Bell	January 1, 1984
MONTANA	Optional	Mountain Bell	February 7, 1984
N. CAROLINA	Experimental	Southern Bell	January 1, 1984
N. DAKOTA	Optional	Northwestern Bell	January 3, 1982
NEBRASKA	Optional	Northwestern	January 1, 1984
NEW HAMPSHIRE	Optional	New England Tel.	January 1, 1983
NEW JERSEY	Optional	New Jersey Bell	October 1983
NEW MEXICO	Optional	Mountain Bell	February 1979
NEW YORK	Optional	New York Telephone	December 31, 1983
NEW YORK CITY	Mandatory	New York Telephone	Historical
NEVADA	Optional	Nevada Bell	July 11, 1983
	Optional	Central Bell	May 26, 1983
OHIO	Optional	Cincinnati Bell	July 27, 1982
	Optional	Ohio Bell	Jan 31, 1982
OKLAHOMA	NO	Southwest Bell	
OREGON	Optional	Pacific NW Bell	Historical
PENNSYLVANIA	Optional	Pennsylvania Bell	December 30, 1983
RHODE ISLAND	Optional	New England Tel.	May 1983
S. CAROLINA	Optional	Southern Bell	January 1, 1984
S. DAKOTA	Optional	Southwestern Bell	January 1, 1984
TENNESSEE	Optional	South Central Bell	January 5, 1984
TEXAS	NO	Southwest Bell	
UTAH	NO	Mountain Bell	
VERMONT	Experimental	New England Tel.	October, 1984
VIRGINIA	Optional	C & P Telephone	November, 1983
WASHINGTON	Optional	Pacific Northwest	August 1, 1981
		United Tel	July 9, 1984
WEST VIRGINIA	Optional	C & P Telephone	January 1984
WISCONSIN	NO	Wisconsin Bell	
WYOMING	Optional	Mountain Bell	March 26, 1981

Mr. **Wyden**. Well, thank you.

This panel has been interesting. So often on Capitol Hill, I think my colleague would agree, we get these murky, namby-pamby kinds of statements. That certainly has not been the case with respect to this panel, and I thank you all for coming.

My very distinguished and able colleague, Mr. Skelton, from Missouri, is here as well, and, without objection you may proceed.

OPENING STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. **Skelton**. First, I would like to thank my colleague, Mr. Wyden, for his continued leadership of this task force and his continued efforts on behalf of small businessmen and the preservation of a universal telephone system.

Each day I receive letters from small business owners, senior citizens, and other individuals expressing concern about the increase in their local telephone bill. They express concern because the phone is vital to their business, or it is their means of communicating with the world outside their home, and they do not know if they will be able to absorb the rate increases. These letters bring home the reality of the impact rising local rates are having on the system's smaller users. Either they pay the increases or they drop off the system, they cannot shop around for local service.

I am concerned that long-distance access charges coupled with other local rate increases may price that plain old telephone service that we have taken for granted so long right out of the reach of small businesses and their customers. This is especially true in rural, high cost areas.

How do we maintain the affordable, dependable, and efficient telephone system we have enjoyed for so many years? What is a fair rate? Who gets cut out if prices are unfair? Are certain parts of America going to be isolated because telephone rates are too high? How severe is the threat of bypass?

Our goal is to maintain an affordable and fair telephone system, one from which we can all benefit, because small business owners cannot go anywhere else to get local telephone service.

Mr. **Wyden**. You are very gracious, and it was very, very good to be in your home State recently, where we got some careful, good input from the small businesses in the Midwest. I am very thankful for all your leadership and interest in the issue.

Let me start with a couple of questions for this panel. Mr. Lilly, I want to start with the point you made about the vacant building of Southwestern Bell. To make sure I understand your argument, your argument is that this vacant building isn't going to be used, yet it went into the rate base. Your theory is that if you cut out some of those kinds of things, a phone company could lower some of its costs and then eliminate some of the threat of bypass. Is that essentially the argument that you are making?

Mr. **Lilly**. That is right. Also, it was alluded to earlier by one of the other witneses here, there are all kinds of bookkeeping trickery that goes on.

For example, it came out in the rate, in the final order on this rate case, I had better not quote that, I don't have my notes. This matter of shifting stuff into the rate base and shifting profits out of the rate revenue into other divisions of the company. I cannot document this, but there is no doubt in my mind that it is taking place because every time you turn up another rock, there is a big worm under it.

Mr. **Wyden**. I was trying to assess your general view, we are not making any accusations. I am sure if the good people from Southwestern Bell were here, they would have an explanation.

Mr. **Lilly**. I am sure they do, but on this particular one on the building, this came right in testimony by the vice president for revenues at that time, yes, it was there, their thinking was that it would be used for an additional directory assistance building; then the economy changed, so they didn't need it. But the fact remains the rate payers are paying for it.

Mr. **Wyden**. I bring it up only because I think this is one area that everybody in this complicated technologically frustrating area can agree on. If we can be more efficient, that is going to lower our telephone companies' costs, reduce some of the threat of bypass.

Now, Mr. Kimmelman, a question for you. I was fascinated with this point that you made with respect to the bypass issue that you thought that—first, we couldn't ban bypass, I agree very strongly that you don't put a hold on technology, we don't want to do that in this country, and, second, your thesis that somehow what we are doing on the bypass issue is using a blunt instrument when we ought to be trying, in your words, to do something that resembled brain surgery, very careful, very precise kind of steps.

What exactly would the brain surgery consist of, because there are a lot of us that agree that it is a blunt instrument, and I would like you to elaborate on that.

Mr. **Kimmelman**. I will give you some ideas. I don't think anyone knows for sure. I think the key element is flexibility. You don't put a flat charge on everyone across the board and say "This is going to solve a problem" when the problem is many different problems and may not exist someplace else.

So I think one thing you can do is you can look toward some flexible pricing approaches, starting with the FCC and giving direction to the State commissions, looking at every particular problem, possibly bulk rate discounts for large users—if that is what is needed to keep them on the network, possibly some greater tapering of rates in some instances, basically special package pricing for particular kinds of problems.

That would not mean all of a sudden shifting costs on residential customers, it wouldn't necessarily mean shifting cost from long distance to local; it would be pinpointed and targeted.

The example of bypass is a good one because look at the opposite side of bypass. Low-income people dropping off the network if phone costs rise too much. Now, telephone companies have come in with their solution to bypass. The equivalence solution for bypass in the low-income example would be me coming in to you and saying, because a number of people are going to leave the network, we need to keep basic service prices at a subsidized level, $5 a month for everybody in the country just to keep those people on the network.

Now, obviously that is not a targeted solution. Obviously, that is not a responsible approach to the problem, I don't believe their shifting $6 a month onto every rate payer to deal with what they think is a problem is any more responsible than that.

Mr. **Wyden**. It is interesting, this idea of bulk pricing discounts. So what you are saying is if we looked at various kinds of pricing schemes for different groups, we could deal with the bypass issue without perhaps having to have access charges or something like that?

Mr. **Kimmelman**. That is one way.

For example, the commission in Missouri may look at a small town that is a one-industry town and see that even though it may be a very rural area, and you wouldn't think there was bypass, there is a problem. The company that has threatened to leave the network could drive up the rates dramatically for the small number of residential ratepayers left on the network. This problem could be addressed by a targeted discount.

Other rural areas may not have that problem. Another small town may be almost purely residential and small business, have no big business that does a lot of long-distance calling. My approach would be to put the tools in the hands of the State commissions with some direction and some flexibility so that they could spread the costs in a responsible, equitable fashion that wouldn't just be an across-the-board shift.

Mr. **Wyden**. You make some fascinating general suggestions. Your argument is basically saying "Don't throw out the baby because the bath water is a little dirty," and there is the bypass issue, it is out there. I happen to think that a lot of the bypass in the years ahead is not going to take business from A's business and take it to B but somebody is going to come along with some technological innovation, neither A nor B have, and are going to bypass the system.

So we really are just hungry for some precise instruments to deal with this issue, and we are interested in any suggestions you have in the days ahead.

Mr. **Kimmelman**. One final note on this point. The worst thing, I believe, that can happen in the future of telephone pricing is to move immediately to a radical new system like access charges which could raise rates $5 to $10 for everybody in the country and then find that we still have a lot of big businesses going to private systems, dumping more costs on everyone who is left with only one alternative, the public telephone company driving their rates go up even higher. That is the worst situation, and I think before we lock ourselves into a price structure that could lead in that direction, we ought to look for alternatives.

Mr. **Wyden**. Ms. Claybrook, a question for you about the CUB's, something we talked quite a bit about over at the Commerce Committee. I was on the plane coming back yesterday from Oregon and was reading an Oregon magazine that the Oregon Chapter of the National Federation of Independent Business had come out against the CUB's or was now going to announce their position, or something like that. Have you all, in looking at the CUB's, seen that the small business groups are opposed to them?

One of the things that I feel very strongly about is that we have got to get away from pitting the small businesses against the small residential users. I just saw this yesterday coming back from Oregon. I am wondering how the small business groups around the country are reacting to the CUB proposal?

Ms. **Claybrook**. I haven't seen a great deal of opposition from them, and I am surprised that they are, because they are really consumers of telephone service in the same way that the residential person is. They don't have resources to go before phone rate commission decisionmakers and argue the intimate details of these rate increase proposals. It is very costly to them, and they also pay a much larger proportion of their income for higher rate increases for their businesses than do large companies.

So it seems to me that they have a real coalescence of interest with consumers, and I am surprised that they are coming out, that particular group is coming out against—I would like to hear their reasons why. It doesn't make a lot of sense to me.

As you know, there is an initiative pending in Oregon to establish a CUB, and we certainly would like to see that enacted, because we feel that that could really help balance the forces if you would have knowledge and information and advocacy on this issue, and as everyone has described, it is something that consumers really have individually no control over at all. It is a utility, and they are going to lose their telephone service if they can't afford to pay.

I hope you might want to take some initiative with this independent group and see if you can forge a change in their policy. I certainly support and would be glad to work with you in trying to do that.

Mr. **Wyden**. We will be back at this issue many times in the days ahead. My main concern, why I asked, has been the reaction around the country. So often we see an effort to pit the small businesses against the residents. As we devise remedies to the problems, it is getting to be like a pillow, fluff it up here, and it puffs out over there. As we devise our remedies we need to make sure that we are not in any way putting the residences and small businesses at loggerheads.

I am convinced what this issue is really all about, so far, is that the small user has been the victim of supply-side telephone service changes that give all the breaks to people who are big users and who are well off.

A question for you, Mr. Lilly. My background is working with older people. I was director of senior citizens out in Oregon before I came to the Congress. My perception has been that what a lot of older people are concerned about is—they don't put it exactly this way—somehow we are moving toward an information aristocracy. Those well-to-do will have access to all these gadgets and computers and fiber optics and all these whiz bang gadgets of the technological age. The older people are concerned about whether or not they are going to be able to afford a little black box to call the doctor, grocer, or relative, and the like.

And I wonder what the senior groups are doing to try to explain all these changes to their members. For example, it is now possible—it is coming to every community in a staggered way—to make different long-distance choices, to choose who your long-distance company is going to be. Is AARP, for example, trying to put on some forums to help people look at the various kinds of choices and how, if they went to Company A, they would get this, and if they went with Company B, they would get that.

What are the senior groups doing to make sure that older people at least know what is out there and what the choices are?

Mr. **Lilly**. I am not sure I can speak. I know I can't speak for all the older persons. Let me cite an experience at the very local level, my own local chapter. There is no organized movement nationwide that I know of to conduct these sorts of things.

Incidentally, Mr. Bob Brunner, who is from the national office, may have some information. I don't have it as far as any national program. But at the local level, yes, this is discussed periodically at meetings. What do all of these new pricing methods, all these new technologies and new companies and all that, what do they mean?

I guess maybe all of us are reluctant to agree, maybe older persons more so. If we are satisfied with what we have, we become complacent with the status quo. To my knowledge, there has been no massive movement among the older persons from one company to another, taking advantage of MCI and Sprint and all these other parts of the alphabet soup.

At the local level, though, I have tried to, as best I could, point out to them the advantages, as well as disadvantages, of certain new proposals and specifically come back to two in particular. One is this matter of economy service, that is authorized and approved, whereby an individual can make about 70—pardon me, 80 calls a month for the price of flat rate unmeasured service.

I am not encouraging them to go to it or stay away from it, but I am trying to explain at least what I know about the advantages, the disadvantages, the pluses and the minuses of the different systems.

I will admit that I got a little on my soapbox when I found out what the impact of local measured service was. Before I became involved in this area, I had heard many of the members at the local level that apparently were better versed in it than I was saying that MLS was bad. With somewhat of a mathematical background, I wanted to quantify this. How bad is it? Do we really have a problem, or is it a good concept?

When I started developing these figures as to just what the impact would be, it became abundantly clear to me that it was truly a Trojan horse, so this is the nature of the educational program that we have done, and whether Mr. Brunner has some other information about activity on the other level——

Mr. **Wyden**. Identify yourself for the record.

Mr. **Brunner**. I am Robert Brunner, legislative representative for AARP. We have not done very much, I must say. It is more a beginning. We have prepared an article for a monthly news bulletin which will tell us for the first time that they will have to make a choice.

We have also prepared a pamphlet, not my division, but the program department, which is entitled, "How to Cut Your Telephone Costs," which also briefly mentions that.

We are part of, and I am not sure of the exact terms of a cooperative arrangement. I am not sure how widely those will be distributed.

Mr. **Simon**. AARP is working with TRAC and the Consumer Federation of America in a program to set up a hotline for consumers to call and get information about equal access and how to select a company.

The hotline has been tested with support from Bell Atlantic, MCI, Sprint, and SBS, and has proven successful enough that Bell Atlantic and Southwest Bell regions will be extended for at least the next year AARP has played a crucial role in an advisory committee and in producing and printing the materials.

Mr. **Wyden**. That sounds very helpful, so this is one area where the consumer and industry groups feel comfortable with the information. This proposal is backed by those consumer and industry groups?

Mr. **Simon**. Yes.

Mr. **Wyden**. I have had many groups ask me Ron, how do we choose between MCI, and GTE, and AT&T; how do we make our way through the alphabet soup? It is hard for Members of Congress to get into this area, because it deals with profit-making companies.

So there are some restrictions on how we could even discuss this issue, so I am pleased that these information services are starting. I encourage you to do everything possible to make this information available. I sense in my district and from my colleagues elsewhere, a lot of older people are saying, "We are faced with these choices now. How do we begin to make them in the best way for us?"

Mr. **Brunner**. I believe, also, the consumer union had an evaluation of long-distance services. I don't remember what month, and I am not sure my colleagues at the table would agree with their version, but at any rate, they did have an evaluation several months ago.

Mr. **Wyden**. A question for you, Mr. Simon, the Oregon Public Utility Commission has spent a lot of time on the issue of measured service.

They were set to proceed with a measured service proposal, a mandatory measured service proposal which would have gone into effect for small business, charities, and local governments. And, in the course of their handing down their decision, they say that under the measured service system customers will pay for local telephone service in accordance with their usage.

This is not different from the way long-distance rates are structured today. This is no different than the way electricity and natural gas are priced.

My question to you is how comparable are electric and natural gas services to telephone services? And the reason I ask this is, I have had it argued to me that a higher proportion of costs are fixed in the telephone business than in the natural gas and electricity business.

Is that right, or maybe you could offer your thoughts on this general proposition?

Mr. **Simon**. I think in fact, part of the problem in regulation is that we have the same people regulating telephones who have spent most of their life regulating gas and electricity when, in fact, they are dramatically different services.

When you use the telephone, you occupy space on the switch, but that is it. There is no tangible product such as gas or kilowatt/hour or cubic foot of gas consumed.

There is no public policy that says, let's use less of it. The pricing structure ought to get you where you want to go, and in gas and electricity you want to conserve gas, electricity, and you want to discourage use of the product.

In telephone, the public policy is just the opposite in that other than efficiency, it assures you don't build equipment that is idle most of the time, you want to develop peak-load pricing devices, there is no public policy that says let's don't, let's discourage telephone use.

Public policy is just the opposite, that you want to encourage social and political intercourse through the telecommunications system, and ought to have a system of pricing that coincides with that public policy.

Local measured services does not.

Mr. WYDEN. You know of my involvement out in Oregon, really trying to spearhead the effort with our local businesses to put this particular proposal off that is about to go into effect in Oregon.

Do you think that it is technologically impossible, just totally impossible and can't be done anywhere in the Western World, to devise a measured service proposal that is going to work, that is going to have a degree of political acceptability?

For example, I am advised that Illinois has, in parts of that State, measured service, and there doesn't seem to be any opposition.

I ask you the question about whether or not you think it is totally impossible to ever devise a measured service proposal that might be well received by Mr. Lilly's group, and by local chapters of the National Federation of Independent Business?

Mr. SIMON. Let me answer that in part by defining measured service. Not everybody agrees with this, but the part of measured service that I find troublesome is that it measures calls by distance and duration.

I have much less problem with a service option that is based on a unit, a fixed price per call I think measure service gives the option of creating lower cost usage packages based on a flat rate, say for 60 calls, then a fixed price per call, because you can at least know what your phone bill will be.

When you pick up the phone to make that call, you know that is a 5-cent or 10-cent call. There are systems like that that can be developed that would achieve a number of public policy ends without suffering the same kind of problems that metering service does.

If you talk about Chicago, I have never met anybody who liked the measured service in cities like that.

Mr. WYDEN. Your understanding is that in places where it is now, there is great opposition and efforts to get rid of it and it is not popular.

Mr. SIMON. The areas I am familiar with, our experiences, and we deal with areas like New York in particular, ongoing battles, and I don't want to make a judgment, because in fact people get worn down.

In New York, certainly they oppose it, but I don't know whether there is an ongoing battle. Our group has not run into people who have lived under measured service that would prefer that.

Mr. **WYDEN**. Mr. Kimmelman, fixed costs as opposed to nonfixed costs. In the Pacific Northwest, Pacific Northwest Bell has been on record as supporting the access charge decision, because they believe that costs are fixed, and has also supported local measured service for local service in the Pacific Northwest, based on the theory that costs are not fixed.

I am sure there are some technical arguments in the area that I am missing, but I wonder what your thoughts are, and if you could elaborate on the point about fixed or nonfixed costs, whether it is different for local and long distance?

Mr. **KIMMELMAN**. Going back to one of Mr. Lilly's comments, you turn over a stone and find a worm. The telephone industry is the only one I know that can make you believe that that is not really a worm there, but some other kind of animal.

They tell you for long distance, we need to start pricing like local service, with an access charge. They turn around and say local should shift to usage pricing. We can't tell what is fixed and not fixed.

All we have are numbers from the industry, 75 to 80 percent of local equipment that is used for both local and long distance calling is fixed cost capital investment.

There are different ways of dividing these costs. Can we get one plan from the industry so it makes sense for both local and long distance pricing?

What appears to be happening is a form of double dipping, maybe because we have two different companies out there. The locals want more money for local service, and the long-distance companies want to drop the cost for long-distance service and shift them to local.

You get an access charge worth $6 to $10 billion added to local rates, and local phone companies going to the State Commission and asking for $10 billion in rate increases last year, not including these access charges.

We would like to see someone get in there, and tell us what is fixed and what is not. Maybe, we should get economists up to argue back and forth about what is fixed and what is not.

We had a monopoly system, and everyone benefited from investments which were based on the assumptions of a monopoly.

Moving to a new era, we must have everybody who benefited from that system pay for a portion of it. As we make new investments, make the people who benefit from the new equipment pay for it. We must share the costs that are associated with the past—a different kind of price system and market structure—and divide the cost of the present and the future on the basis of who uses the equipment.

Mr. **WYDEN**. The question, the issue of fixed and nonfixed costs is right at the heart of it, and the task force is not making any accusations here.

We are trying to get at what the costs are. I want to commend my colleague from Missouri, Mr. Skelton, who has really been a bulldog on this issue, trying to get the costs on the table.

We are not making any accusations, but to get the fixed and the nonfixed costs out the key to coming up with a fair system of allocating the costs. Thank goodness, Mr. Skelton has been a bulldog on this issue.

I see the very distinguished chairman of the full committee, Mr. Mitchell of Maryland, has come in. I want the witnesses and the task force members to know that this special task force exists solely because Mr. Mitchell has been so concerned about the well-being of our small businesses, as a result of these telephone rate hikes. I want to thank him at this opportunity for the great leadership that he has given to the country on so many small business issues, and particularly for giving the special task force the opportunity to investigate the telephone rate question.

Mr. Skelton.

Mr. SKELTON. Actually, the first concern that I wish to ask about, you just mentioned Mr. Kimmelman, and I am referring to your testimony regarding the stand-alone costs, you call them.

How in the world are we going to be able to separate the wheat from the chaff? When we can do that, we can come up with some ideas, formulas, and direction, but until we do that, I think we are just treading water.

Is there any way that you have not already mentioned to get at this, the so-called fixed costs or stand-alone costs?

Mr. KIMMELMAN. There are efforts to do that, in a number of State proceedings. You will hear from Walter Bolter, who has been trying to do that in a number of States, and they are coming close to some resolution.

Mr. SKELTON. Why is it so difficult to come up with these?

Mr. KIMMELMAN. I don't know.

Mr. SKELTON. Mark Twain once said, "The more you explain it to me, the more I don't understand it." Why is it so difficult to come up and separate the fixed costs, or stand-alone costs, from the long distance?

Mr. KIMMELMAN. The basic answer from the industry perspective, is that they don't really want to do it. You use the telephone, the wire through the wall, the wire to the pole to the company for making both local and long distance calls.

Most of that cost is fixed until we get to the switch. How do you then divide even within those fixed costs the portion going to long distance and the portion that goes to local?

We have divided it, in a monopoly situation, such that long distance picks up a portion.

If you made a call through a private long distance system, you would still have to pay to connect it locally somehow. The equipment wouldn't be free one way or the other. Now, we find this access charge is based on the premise that none of that local fee should be paid through the actual long-distance charge. It doesn't make sense to me.

As a matter of fact, before the breakup of the Bell System, the entire industry, came in and said, they wanted the portion put on long-distance calling reduced, but not eliminated. Now, all of a sudden, after divestiture, they come up with this end-user, access charge so from my standpoint, they have changed their position. And they control the data.

All I can figure is they don't want those costs separated in the way we are asking for it.

Mr. SKELTON. Well, thank you.

The issue of bypass, realizing, its potential at least technology is still relatively new in this area. I remember being a freshman in high school, seeing the first kid in our class with a ballpoint pen. He had a $12.50 brandnew ballpoint pen, got ink all over you, but it worked. As time goes by, you can't give them away now. They don't get ink all over you.

Mr. WYDEN. Some don't write, either.

Mr. SKELTON. We can see the same thing with so many areas. The first computer that we bought, or didn't buy, because it was too expensive and now, our sons own a couple of them apiece, because you can get them at a relatively cheap price.

Well, the same thing could very well be true in the bypass situation. What if every moderate-sized apartment house had its own bypass system? What if every moderate-sized business had a bypass system, one-third of all telephones bypass?

Think about this. We may say it will never happen. Technology could be such that it could happen. Costs could be that it would drive these various individual businesses, apartments, and so on, to bypass. What is left is going to be the senior citizens, folks that have neither the desire nor the money to bypass folks living in an area of our country that could not get tapped onto bypass system, and they all will be paying a disproportionate penalty to call Aunt Martha.

Am I on base? Is that a distinct fear that is something we should be concerned about?

Mr. KIMMELMAN. I think it is a distinct fear. I wouldn't want to bet against technology or bet that there is one way to go about this, Mr. Skelton.

Mr. SKELTON. How many people do you know have their own dish in their backyard for cablevision? We are not doing too well out in Missouri farming areas, but a number of my farm friends, in spite of the fact that they are having bad years, have their own dish out there, and they get 40 different television programs.

Ten to fifteen years down the road, a bypass system could be a relatively simple thing, maybe even with their own dish. Who knows?

Mr. KIMMELMAN. That is true. I would like to see the local phone company innovate, move to the new technologies themselves, so that the public network will be able to offer as high quality service as any private system.

Now, there will still be bypassers and that is why I am fearful of moving to access charges when we will still have the problem of bypass anyway, and it will mean even higher rates.

We have a judge's decision over here, FCC decisions all over the place, State Commissioners making decisions and the one entity we have not got a final answer from is the Congress.

We need a comprehensive solution that really devises a method, not betting against technology, betting with technology, so that everybody who uses telecommunications contributes to maintaining a public network. They may want to do it in a totally different way in the future that we don't know about, private or public or a mixture, but I would think that everyone benefits from a public network being there, being able to communicate with everyone else, and they should all contribute to keeping that alive.

Mr. SKELTON. What concerns me is that some day, we would be in a position, sadly, that an average income person or below-average income person will have to make a decision, and the decision may be—I can't afford a telephone.

That would be going backward and that troubles me.

Mr. SIMON. I would like to talk about this particular problem, because there is a trend I find worrisome. It is a dilemma. We have the long-distance companies in particular, and the FCC, promoting a system of pricing that shifts as much of the costs to the local exchange as they can get away with.

As a result, as I mentioned in my testimony, there is the incentive and the need for local users to find ways that they can avoid these costs.

The smart building, that is, a wired building, is a form of local bypass and the only way in many cases that local users can take advantage of technology and respond in a way that will lower their costs.

You could put in a PBX in an apartment building to allow a 20- to 30-percent reduction in the number of lines coming in, and you lose the access fee, monthly charge per line, all your calls within the building become free calls', startup costs, and take advantage of least cost routing. Yet in the Southwest Bell region, the phone company has gone to the utility commission and said, bar these "vest pocket" phone companies.

So you have a system that is transferring costs to these folks, and then the local company going in and saying, don't let them take action to lower their own price.

I consider it to be like a trap.

Mr. WYDEN. Thank you.

I thank the gentleman, and particularly for his efforts to zero in on this cost question, some of the key considerations we need to get at before we make some recommendations.

Mr. Roemer, who has been so active in advocating for the small businesses and their telephone costs, had to leave, but he had an interesting question.

He wanted to know whether there are some technological or procedural advantages to divestiture for small businesses that may be just hard to quantify, that we may not have seen.

Mr. Kimmelman mentioned something about installation. You can now get your own telephone equipment. Are there other kinds of advantages? I know you have stacked a fair number of disadvantages on this side of the ledger.

Are there some other advantages that we may have missed, things that we want to keep, no matter what kind of comprehensive rewrite we make in the Communications Act next year?

Mr. KIMMELMAN. It is for residential customers as well. There are a lot of promises out there with competition. They were made early and we have not seen them fulfilled and it has turned a lot of people against competition and against deregulation.

I think we need legislation to straighten things out, and protect against rate increases, but if we had competition in all the equipment areas, actual competition in long distance service—which we do not have yet, we just have the beginnings of it—more competition in the local market, we would find new equipment, gadgets, and services available to small businesses and residential customers.

The promise is there. We just need to move carefully toward that and make sure we don't disenfranchise anybody in the process. One other thing, in terms of the question of small business and residential customers that you, Mr. Chairman, raised before. You thought they should be able to cooperate.

We believe wholeheartedly that they should be able to cooperate, and we are concerned that there might have been some suspicion on the part of small business in trying to stop the access charge. We would like to see things like the Citizens Utility Board instituted, because that could unite consumers and small business. We went to small businesses and tried to convince them that we needed to work together, but they didn't come along then. CUB is one mechanism that puts people together and lets them see their interests are united.

Mr. **Simon**. At the risk of repeating myself, technology, smart building, smart switches, technology that can be available to avoid some of the new costs, they are there, they are available if we don't let the regulatory system stop them.

Mr. **Lilly**. Mr. Chairman, I have a couple of specific examples that I can see as advantages. One is the availability of the residential customer to go out and buy himself a telephone. Just putting a pencil to it, this rotary dial instrument in my home, has been there at least 30 years at $1.50 a month, that means $840 that I have invested in that rotary dial phone and I am still paying $1.50 a month for it and I can go out and buy one for $20 on the open market. It will access that system. This is one of the advantages. We have opened up competition. I sense, since we have the experts formerly in this whole family of AT&T, they are now stepbrothers instead of full brothers, they know the business, so this matter of getting data out, I sense in recent media releases, that AT&T is challenging SWB's position, their costs, the same way Southwestern Bell is challenging AT&T's data.

And maybe in this process of getting the experts to challenging each other instead of us as residential users with limited knowledge and limited staff, if any, to get in and raise those questions, I think this is going to be a good outcome of divestiture.

Thank you very much.

Mr. **Wyden**. I agree with you. It is a thoughtful point and clearly there is more interest out there than there used to be.

We know, for example, 10 years ago Southwestern Bell and AT&T were part of one family, and there wasn't that bottom-line financial reason to ask some tough questions, because they were all part of one operation. There is reason today. Your point is a thoughtful one.

I think Mr. Roemer's question is important, because now that the deed has been done, we want to keep the good things, such as being able to buy your own telephone.

No matter what we do, in terms of rewriting communication policy, had Congress begun in the middle fifties, when the communications business had begun to change, when the line between telephone and a computer had begun to blur, had we stepped in then and begun to update our communications statutes, we could have had some of the fruits that we are seeing today without some of the confusion and hassle.

I was in knickers back then, so I can get off a little bit, but clearly, whatever we do now, we want to keep the good features and make sure they are a central part in whatever we do in rewriting the Communications Act next year.

Mr. Selwyn of Massachusetts was fogged in, so without objection, we will put his testimony into the record.

[Mr. Selwyn's prepared statement with attachments follows:]

PREPARED STATEMENT OF LEE L. SELWYN, PRESIDENT, ECONOMICS & TECHNOLOGY, INC.

The divestiture of the Bell Operating Companies from AT&T, along with the current debate over the FCC's "Access Charge" decision and various legislative proposals which seek to overturn and/or modify that decision, the continuing escalation of telephone service costs, and efforts to implement significant changes in the manner in which telephone services are priced, have stimulated an unprecedented level of public interest and concern about national telecommunications policy. In this regard, it is important that as much as possible be known about the potential impact these policies will have upon the efficient operation of the U. S. telecommunications industry and upon the means by which telecommunications services are purchased and used by business, institutional, residential and government consumers. I am pleased to have this opportunity to provide my thoughts on these important national issues. In this Statement, I will address two key aspects of telephone service pricing policy - Local Measured Service (LMS) and Access Charges. LMS pricing has been the subject of numerous regulatory proceedings at the state level, while access charge policy has been at the core of the landmark FCC MTS/WATS market structure investigation, Docket CC 78-72. Together these two aspects of telephone service pricing policy will shape the manner in which business and residential consumers purchase these services and the aggregate amounts which they will pay.

THE STRUCTURE OF TELEPHONE SERVICE COSTS KEY TO AN EFFICIENT PRICING POLICY

The national public telecommunications network can be thought of as consisting of two principal elements: (1) Access lines dedicated to the exclusive use of individual customers, and (2) Network switching and transmission facilities provided as a common pool of resources and available to all customers on an "as needed" basis.

"Access lines" are individual pairs of wires, usually included in large, multi-wire cables, which connect the individual customer's home or business with the local telephone company central office. While individual customers may subscribe for one or more such access lines, the facility is committed to the exclusive use of that customer to place and receive telephone calls, and remains in an "available to serve" condition for that customer when not actually in use during a telephone call. Consequently, the investment-related and ongoing operating costs associated with this access line do not vary with the level of use, but are fixed over a given period of time. The costs of these access lines are thus termed "non-traffic-sensitive" (NTS) because they do not vary with the level of traffic which each access line actually carries.

The "public switched network" in its broadest sense consists of the totality of local and long distance switching and transmission facilities which are used to connect the individual customer access lines. These facilities form a common pool of resources which are available to all customers, but are provided only as needed to respond to a request, conveyed by the customer by dialing a telephone number, that a particular call be completed. Consequently, the quantity of such switching and transmission facilities varies with the volume of usage; more facilities are required as the total volume of usage increases. These costs are termed "traffic-sensitive" (TS) because they vary with the volume of traffic which the public network is called upon to carry.

Since the cost of access varies with the number of access lines, and the cost of the public switched network varies with the amount of usage carried by the network's switching and transmission resources, an economically efficient pricing arrangement would recover the non-traffic-sensitive costs of access through a fixed monthly charge per access line, and would recover the traffic-sensitive costs of the public network through per-call charges. While the existing pricing scheme does include fixed monthly access line charges as well as per-call charges - particularly for long distance calls - these rates bear little direct relationship to the costs associated with access and usage. In fact, local usage (where Local Measured Service (LMS) or other types of per-call pricing plans are in effect) and long distance usage have traditionally been priced considerably in excess of the underlying traffic-sensitive cost, such that "contributions" of revenues over costs arising from the use of above-cost prices may be applied to the shortfall of revenues with respect to costs arising from the below-cost pricing of basic access lines.

In the case of interstate services, the transfer of revenues from usage to access is mechanically accomplished, in part, through the so-called "jurisdictional separations" process, in which a portion of the access line costs are "assigned" to the interstate jurisdiction, to be recovered through interstate long distance usage charges. Approximately 75% of the costs of access are assigned to the state jurisdictions, and are recovered through a structure of local service access charges (the basic monthly local service rate) and local and intrastate long distance usage charges. In addition to recovering the jurisdictionally-assigned component of the costs of access, rates set at the state level must also recover the traffic-sensitive costs of furnishing local and intrastate calling, as well as numerous other features and services whose rates are subject to state regulation. State-regulated local and intrastate telephone rates thus constitute the bulk of most customers' telephone bills.

LOCAL TELEPHONE SERVICE PRICING

The past several years have witnessed unprecedented activity in efforts to revise traditional methods of pricing telecommunications services - activity fueled by a generally rising price level and given direction by industry efforts to respond to the changing regulatory, pricing, and marketing realities arising from the FCC's Second Computer Inquiry decision and the AT&T antitrust settlement. Such repricing efforts have been extensive in scope, covering, among other things, terminal equipment and Centrex services, local and long distance private line services, long distance message toll and WATS, local exchange access, and local exchange usage. While repricing efforts in all of these categories have drawn active interest and, in some cases, opposition from customers and others, few have drawn as much public attention as the industry's efforts to introduce and expand plans for pricing local telephone usage on a per-call basis.

Many state commissions have already reached at least tentative positions on Local Measured Service (LMS), both pro and con. The telephone industry has announced plans for a major push for approval of LMS on a national scale within the next several years, and it is thus likely that almost all state commissions will confront the LMS issue within the very near future.

Local Measured Service: Fact and Folklore

In considering proposals for the introduction or expansion of LMS, the regulators' task is made more difficult as a result of a mythology which has developed which holds that the public would really benefit from LMS - if only it knew it. Indeed, the widely held - yet unsubstantiated - view that LMS will increase the efficiency with which local telephone service is furnished and utilized seems to prejudge what is the most fundamental predicate upon which any LMS plan seems to be founded - that LMS will reduce costs and thereby save the ratepaying public a considerable amount of money.

Unfortunately, the notion that LMS is economically efficient seems to have become axiomatic - almost a dogma which we are asked to accept without question or proof. It is difficult to understand, precisely, why this has happened. Perhaps it is a fallout of efforts at conservation-oriented pricing in other utilities, such as electricity, water, or gas, where consumption of an exhaustible commodity is involved. If this is so, however, then the comparison is faulty. Virtually all costs inherent in the provision of local telephone service stem from fixed capital resources, and are affected primarily by peak demand conditions. These cost conditions bear very little similarity with the costs inherent in the "commodity" utilities, and it is a serious oversimplification to extrapolate from conditions extant in the latter to the telecommunications industry.

It is perhaps more likely that the mythology of the "efficiency" of LMS is a manifestation of the local telephone companies' goal of finding new sources of revenue in the wake of deregulation of terminal equipment and divestiture of the Bell Operating Companies from AT&T. While there is little doubt that LMS can - and will - lead to an increased level of revenues for many, if not most, local telephone companies, that fact in and of itself does not provide any foundation for LMS from a regulatory standpoint. There is only one pertinent question facing regulators: Is Local Measured Service in the public interest? There is mounting evidence that it is not.

The fact is that the conventional belief that LMS is economically efficient is simply wrong. LMS is a costly approach to pricing local telephone service whose hypothesized benefits do not even remotely approach its proven costs.

From the regulatory perspective, the overriding policy objective in selecting a pricing plan for local telephone service must be to keep the costs of furnishing local telephone service as low as possible while at the same time satisfying subscriber needs to the greatest possible extent. As I shall show, adoption of Local Measured Service pricing is wholly inconsistent with this policy goal.

The LMS Mythology

The LMS "mythology" teaches that Local Measured Service is an equitable and efficient pricing policy for local telephone usage. The perception of the "equity" of LMS stems from the simple proposition that those customers who make more calls should pay more for their service. This, it is held, will remove the "inequity" which currently exists under flat rates, where low use customers "subsidize" the high use customers since both have the same total telephone bill. The telephone companies say that LMS will be offered at lower monthly rates than flat rate service and will thereby provide customers with a way of avoiding the large increases in flat rates that are predicted as a consequence of the antitrust settlement and the resulting restructuring of the telecommunications industry. LMS, it is held, is the only way to preserve "universal service" in the face of these coming rate increases. We are also told that, by charging customers on a per-call basis, LMS will encourage customers to make fewer calls, thereby reducing the overall cost of furnishing local telephone service and, consequently, improving the efficiency with which customers are served - a result which, if it occurred, would presumably lead to lower local service rate levels. *The only way in which such a result could be* achieved is if the costs associated with the implementation of a Local Measured Service pricing plan were less than the costs which would be avoided through curtailment of usage. Moreover, the only way in which a curtailment of usage would result in a lower level of cost is if that curtailment occurred during the "busy hour"; a reduction in usage at any other time of the day would have little, if any, effect upon the total cost of operating the local telephone network.

LMS is not the answer to the rising costs of local telephone service; LMS is part of the problem.

Under LMS, it will cost the telephone companies more to provide local service than it would under a system of flat monthly rates. It is a simple mathematical fact that the cost of local service for the average customer will be higher under LMS than under flat rates, because the total cost of furnishing local telephone service will be higher under LMS than under flat rate pricing. LMS is a markedly inefficient local exchange pricing policy. Contrary to the "mythology," there is growing evidence that the costs of LMS are substantial, and that the offsetting economic benefits of this type of pricing plan are illusory. Data furnished by several Bell System companies in recent rate cases demonstrates that LMS produces no increase in economic efficiency. Moreover, and again contrary to the folklore, there is mounting evidence that LMS is a costly policy - requiring much larger initial investment and recurring operating costs than had previously been believed.

For a number of years it was thought that the coming of electronic switching would make LMS an almost costless policy. Electronic switching may often make LMS possible, but, as with most things in our economy, it does not make it "free." AT&T and several BOCs have recently estimated that the cost which is directly attributable to metering and billing local calls under LMS using electronic switching technology is at least 0.5 cents per completed message. Since there are some 200-billion local messages handled by the U. S. telephone industry each year, adoption of a universal LMS policy would mean that the total cost of furnishing local telephone service would be at least $1-billion higher than that which would exist under a purely flat-rate pricing plan, even under the most ideal (i.e., electronic) technological conditions.

Direct costs of LMS implementation such as those arising from metering, billing and additional operator and business office services are the most obvious manifestations of the economic burden created by this approach to pricing local telephone service. In assessing the total costs of LMS, however, we must also include another important element which is directly attributable to LMS and which ratepayers will be forced, one way or another, to support. In many instances, the primary impetus for acquisition and installation of an electronic switching system in a central office can be traced to the desire on the part of the telephone company to obtain the capability for measured service pricing. To be sure, some central offices are clearly in need of replacement, and it only makes sense to acquire the most current vintage of equipment. However, if and to the extent that otherwise functional central office equipment is being prematurely retired and replaced with ESS or digital equipment solely or primarily for the purpose of obtaining the LMS capability, then, from the standpoint of regulatory policy, _the costs of such equipment must be attributed to Local Measured Service_.

In any event, we now have more recent data which further impeaches the understated often-cited 0.5 cent figure. Although information on this subject has been examined in a number of states, I will discuss three in particular - New York, Maine and Oregon.

New York

In an _embedded cost study_ of local usage costs conducted by New York Telephone Company and submitted in its most recent rate case at the New York Public Service Commission (Case 28601), the Company developed "prospective embedded costs" for its 1984-85 test year separately for flat-rate and for message-rate local messages. In that study, the average cost per flat-rate local message was found to be 6.63 cents in the test year, while the average cost per message-rate message was found to be 9.21 cents in that same time frame, a difference of some 2.58 cents. Now, it would not be correct to attribute all of this 2.58 cent difference to the costs of measurement and billing, because the nature of flat-rate and message-rate calls in New York are not the same for reasons unrelated to the presence or absence of LMS (i.e., because the two pricing plans are not offered in all parts of the state). However, it was possible to isolate the _specific_ costs directly attributable to the metering process.

In 1982, New York Telephone had some $89-million invested in Automatic Message Accounting (AMA) equipment. In the test year, New York Telephone will spend some $93-million to meter and bill about 9-billion local messages - an average cost of 1.05 cents per message, more than double the previous AT&T estimate. [See Attachment 1, p. 1] New York Telephone will devote some 13% of the total cost it will incur in furnishing message-rate calls to the metering and billing activity. Rather than declining, the cost of metering local messages is actually growing. Moreover, these figures do not include the costs of additional operator assistance services engendered by the presence of a measured service pricing plan. Operator services costs could add as much as 0.3 cents to the LMS-related costs of an average message-rate message, bringing the total cost close to the 1.5 cent range. (Although New York Telephone has disputed the above calculations, the Company does concede a direct metering cost per local message of about 0.76 cents.)

Maine

New England Telephone (NET) recently submitted extensive LMS cost data to the Maine Public Utilities Commission which, at a minimum, corroborates the figures for New York. [See Attachment 1, p. 2] NET has a total of approximately 410,000 subscribers in Maine, most of whom are currently provided flat rate service; where measured service is offered, it exists principally for business customers on an optional basis. There is a limited amount of residence service that is offered on an optional measured basis in the Portland, Maine, area, but the "take" is only about 7%. About 350,000 out of the 410,000

NET-Maine customers are residential. The Company provides roughly 500-million local messages per year. If NET were to implement LMS in Maine under a 100% electronic switching environment (which is certainly not the case in Maine), the direct differential cost between flat rate and measured service, strictly for the switching and bill processing components, would amount to approximately $1.7-million a year. If we further include in that calculus the additional costs, developed very conservatively, of operator services that arise as a consequence of measured service, these costs would increase by another $1- to $2-million annually. If NET were to provide the entire state with measured service availability, which would involve conversion of step-by-step and older electromechanical central offices, the Company estimated that this would represent a capital cost of approximately $10-million, which would in turn increase the annual revenue requirement by some $4-million.

If NET were to implement universal, non-optional measured service in Maine immediately, the operating costs of local message service would potentially increase by about $8-million a year. It is, however, instructive to put that sum in perspective. The total annual embedded usage-sensitive cost currently incurred by NET in Maine to provide local exchange service is approximately $25-million. Statewide LMS implementation will increase this cost by an additional one-third. The incremental cost of local usage furnished on a flat rate basis is only $21-million. In effect, that cost would have to be increased by 40% under continued flat-rate service over that which would pertain in an LMS environment in order for NET to "break even" on the added costs of implementing measured service pricing. While NET dod not undertake any formal "cost/benefit" analysis, it did furnish a basis upon which "benefits" of LMS could be quantified. The Company estimated that it would "avoid" some $250,000 of annual usage costs for each 1% drop in overall usage. Thus, in order to defray the added $8-million annual cost of usage measurement, NET would have to experience an incredible 32% drop in the volume of local messages. Incidentally, even if NET were to restrict LMS to areas served by electronic switching, and if we were to further assume no additional operator service costs, NET would have to experience an overall drop of between 7% and 10% in statewide usage in order to offset the added costs of LMS implementation.

This type of cost/benefit analysis measures "benefits" exclusively in terms of the potential costs which the local telephone company may be able to avoid if its customers, acting in response to LMS, curtail their demand for its services. Assuming, for the sake of argument, that such extreme levels of curtailment could indeed be induced by LMS pricing, it is not at all apparent that stimulation of such curtailment is a legitimate regulatory policy goal. Individual users - and society in general - clearly derive substantial benefits from the ability to communicate; if by pursuing policies aimed at restricting such usage local telephone companies and/or their regulators limit such communications, society is decidedly worse off. This kind of cost/benefit analysis clearly ignores the externalities associated with local telephone usage. If "benefits" of LMS can only be expressed in terms of (arguably) avoided capacity costs, without regard to the social gains from access to flat-rate service, no valid cost/benefit assessment can possibly be made.

NET also furnished some enlightening cost data relative to its existing "optional" LMS offering in the Portland, Maine, area, a service which has attracted the interest of about 1,600 customers, less than 7% of the total Portland residence market. The Company provides about 600,000 messages per year to those customers, at a direct out-of-pocket metering cost of about $24,000 per year, or about 4 cents per message. This level of cost is, in my view, unacceptable by any reasonable standard.

Oregon

Pacific Northwest Bell (PNB) in Oregon did an interesting LMS cost/benefit study. [See Attachment 1, pp. 3-5] The Company actually attempted to develop a capacity cost savings associated with ESS-based local measured service as well as looking at the incremental capacity and billing costs associated with the LMS plan. The tariff involved a non-optional LMS offering required for all business customers, involving full conversion to mandatory measured service. Approximately 500-million annual business messages would have been covered by LMS pricing. PNB estimated that its billing and central office capacity costs associated with these business messages would amount to approximately $2.8-million a year on an ongoing basis, or about 0.6 cents per message, not including any LMS-related operator service costs.

The PNB cost saving estimate was based upon a 5% curtailment projection, which the Company anticipated would result from this mandatory LMS plan. On this basis, PNB forecast cost savings arising from LMS of only $1.3-million, or less than half of the projected $2.8-million annual LMS incremental cost. Although the PNB cost/benefit study recognizes that the costs of LMS will exceed its quantifiable benefits, Company documents observe that the added costs of LMS will be recovered from customers through higher rate levels.

LMS is not more efficient than flat-rate service.

If the theory of LMS' efficiency were correct, the increased costs of metering and billing for telephone calls should be offset by some cost savings from a decrease in overall usage. Once again, however, the "folklore" and the facts do not track. The evidence from those telephone companies which have proposed mandatory measured service plans (rather than merely limited "experiments") indicates that the companies expect no consequential improvement in economic efficiency and anticipate no significant cost savings as a result of implementing LMS.

In one recent case, Pennsylvania Bell conceded that it expected no improvement in economic efficiency resulting from repression of demand for local calls. Similar projections have been made in Maine, Oregon and the District of Columbia. For LMS to be truly "efficient," the "savings" should be at least as great as the increased costs of implementing an LMS tariff. The fact that there are no anticipated savings demonstrates that LMS reduces economic efficiency by increasing the overall cost of local exchange telephone service without any tangible benefit to ratepayers.

Some LMS proponents claim that new technology reduces the cost of measuring local calls to practically nothing. Although there is little empirical support for this view, if it were correct, then the very same technological conditions would also tend to reduce the usage-sensitive costs of furnishing local message service to comparable, de minimus levels, since capacity available for measurement purposes could just as easily be used to handle increased peak traffic demand. And, if local usage were itself "practically costless," it would be most inappropriate, from a policy standpoint, and highly inefficient, from a societal standpoint, to base telephone rates upon a metric which bears no particular relationship to cost.

There is no evidence that lower-income families would benefit from LMS.

LMS is perhaps most frequently lauded as a means of preserving universal residential telephone service in the face of rising access line costs. It is postulated that if flat-rate local rates are increased to cover the full cost of local telephone service, many subscribers will discontinue their service, a condition seen as inimical to the universal service objective. Incredibly, such views have been advanced without any valid economic support. The initial residential access line is extremely price-inelastic; even where local telephone companies have implemented large increases in either monthly rates or in initial installation charges for residential telephone service, virtually no repression of demand for the initial residential access line has been observed. Raising the monthly rate for local telephone service will affect the penetration of the residential market only if the price-elasticity of demand for the initial residential access line is materially different from zero. And the evidence overwhelmingly demonstrates that it is not.

However, by increasing the overall cost of local telephone service, LMS should be considered more of a threat to universal service than an appropriately structured flat-rate pricing plan, even at higher rate levels. If it is feared that cost-based flat rates will result in service being too expensive for low-income families, then a rate design should be adopted that targets a subsidy only to those ratepayers who are actually in need - i.e., those who would not be able to retain their service at the higher rate levels - rather than the present system under which all residential ratepayers, covering the full range of the economic spectrum, receive subsidized telephone service.

The theory that LMS will help keep telephone service affordable for all residential customers relies heavily upon an heroic assumption that low-use customers are also - and always - low-income customers - and vice versa. Rather than target a subsidized local telephone service directly at low-income households, the industry apparently would like to use a "low-use" metric as a surrogate for "low-income." However, no evidence in support of this assumption has been collected, and what little information there is on the relationship between telephone usage and income level actually refutes the "low use = low income" view. For example, one recent AT&T study revealed that LMS would not benefit lower-income families:

> [I]t was found that customers whose household income was less than

$10,000 per year had substantially stronger preferences to continue using flat rates at the point where flat rates increased above the 100% level.

In another study conducted by New England Telephone in Portland, Maine, where an optional low-use measured service is offered, the incidence of acceptance of the optional service by low income households was not consequentially different from the more affluent - and, indeed, the "take" was in all cases extremely low, with only about 7% of households in areas where the optional LMS service was offered availing themselves of the measured service alternative.

Thus, the implementation of LMS, by imposing continual increases in the overall cost of local telephone service, would actually harm the group of (lower-income) customers whom LMS is supposed to protect.

LMS is not more equitable than flat-rate service; at best, LMS will only reverse the existing "inequity".

Under flat rates, there is the possibility that heavy users may be subsidized by low-volume users because low-use customers are being charged for a level of service they do not receive. However, no telephone company has actually quantified this inter-customer subsidy. If it exists at all, it is likely to be very small.

A subsidy, after all, exists only if it can be shown that one group of customers is paying less than cost, while another group pays more than cost.

If, for example, there were *no* usage-sensitive costs of local telephone service, then a flat-rate pricing plan would be *the only equitable arrangement*, because *any other approach would introduce rate/cost disparities which would not be present under flat-rate pricing*. Even if some costs are usage-sensitive, a disparity between low-use and high-use customers - many of whom have low or moderate incomes - should still be tolerated, if the costs of remedying the problem are so high as to result in higher rates for most, if not all, customers. Equity is, fundamentally, a *relative* concept; we should be careful to avoid placing "equity" on so high a pedestal that it is to be achieved at any cost.

Most important, even if flat-rate pricing does result in the low-use customer subsidizing the high-use customer, *under LMS there is the certainty that high-use customers will subsidize low-use customers* because measured local calls would be priced considerably above their cost, such that revenues from local calls would be used to defray those fixed costs of access which are not covered by the monthly access rate element. The monthly cost of access for low-use customers would be subsidized by the revenues that will be generated from the medium and heavy users - *regardless of ability to pay*. Thus, at best, LMS only reverses the subsidy. LMS simply does not result in a more equitable local rate plan than under flat-rate service and, to the extent that adoption of LMS causes the *total cost* of furnishing local exchange telephone service to increase, it merely results in a higher level of rates for all ratepayers.

Demand-sensitive vs. usage-sensitive pricing

Under so-called measured service pricing plans, billing is based upon "usage," generally defined in terms of the quantity and nature of the individual calls placed by each customer. As we have previously seen, however, "usage" may not be the only means by which the different service characteristics of various customers may be identified. One such alternative is "demand" as defined in terms of the simultaneous capacity requirement imposed by a customer upon the network.

Demand pricing has been in widespread use in the energy utilities for many years and, in fact, has been in use in the telephone industry for an even longer period of time, except that this terminology has not been used to describe this type of pricing for telephone service. Flat-rate local service is a form of demand-sensitive pricing, in that a customer's total bill varies in proportion to the number of access lines - and hence the number of simultaneous accesses - on the public switched network. Demand pricing has traditionally been used for Wide Area Telecommunications Service (WATS), and even the existing so-called "usage-sensitive" WATS tariff contains demand-sensitive pricing elements. In the energy utilities, demand pricing may be more costly to implement than simpler usage-sensitive plans, because of the more complex metering devices which are required to measure demand. However, just the opposite is the case in the telephone industry. Demand is implicitly controlled (it doesn't have to be "measured") by the number of access lines or trunks furnished to an individual customer. By contrast, measurement of "usage" requires complex and costly metering and billing equipment. In addition to its lower cost, demand-sensitive pricing of local telephone service also presents customers with a more accurate picture of the cost characteristics of the telephone system. Instead of being confronted with a "price" for a local call which may in fact involve little if any "cost" to provide (particularly when it occurs in an off-peak period), demand-sensitive pricing confronts the customer with a specific increment of cost which will, if properly developed, track the incremental capacity costs associated with the public switched network. The term "flat-rate" may be an unfortunate choice of words, because it implies that all customers pay the same amount regardless of their individual level of usage. In fact, under a so-called "flat-rate" pricing arrangement, customers are charged in direct proportion to the number of access lines they use, which bears a much closer relationship to the underlying cost of the service than a rate based upon the number of individual local telephone calls they make.

A structure of differential flat rates for local exchange service can provide an efficient alternative to LMS while still promoting equity among different customers and customer groups.

The efficiency of flat-rate pricing can be achieved without sacrificing much of the "equity" which is supposed to result from LMS. A properly developed flat-rate pricing plan can - and should - reflect differences among the various classes of customers which affect the total cost of furnishing local telephone service. Traditionally, flat-rate pricing plans have incorporated rate differentials based upon customer class (e.g., residential, business line, business PBX trunk) and local calling scope (usually defined in terms of so-called "rate groups" which reflect the number of telephones which may be reached on a toll-free basis within the local calling area). While these differentials have historically been based upon subjective "value of service" considerations, more rigorous attempts can be, and have been, made to establish rates which accurately track the cost differences among the various types of local telephone service. One such effort was undertaken by our firm in conjunction with the Minnesota Department of Public Service, and has been described in my paper, "Perspectives on Usage-Sensitive Pricing" (Public Utilities Fortnightly, May 7, 1980, pp. 15-20). Under this plan, which was adopted by the Minnesota Public Utilities Commission and is currently in effect, a structure of differential flat rates for non-metropolitan exchanges was developed based upon the identified costs of Extended Area Service (EAS) for each Northwestern Bell exchange outside of the Minneapolis-St. Paul metropolitan area. Within the "Metro" area, a structure of differential flat rates was developed based upon a pattern of local calling costs determined to vary as a function of the distance from each wire center to the central business districts of the Twin Cities. It is worth pointing out that, despite the extensive local calling area (covering distances of more than 50 miles) available to Twin Cities subscribers, the total cost of local telephone service for these customers is considerably less than in measured-rate local calling plans, such as those which exist in New York, Boston or Los Angeles, when both the monthly rate and the local calling charges are considered. Although a structure of differential flat rates may not provide the same granularity of discrimination among individual customers as does a full LMS arrangement, it can be implemented at virtually no cost and still achieve a significant improvement in the overall level of "equity" in the local rate plan.

So-called "optional" LMS plans should be seen as nothing other than strategies whose ultimate goal is mandatory measured service pricing.

Faced with mounting opposition to mandatory LMS proposals, many telephone companies have adopted the alternative tack of seeking authority to introduce so-called "optional" LMS tariffs which would make a measured service option available to customers as an alternative to the traditional flat-rate pricing. However, experience in a number of states indicates that telephone companies are manipulating prices and shifting costs to make such optional LMS plans appear more attractive.

Under an optional plan, when a customer moves from flat-rate service to LMS, the telephone company experiences a revenue loss. This is because only those customers who will pay less (because of their low usage) under measured service can be expected to switch to optional LMS. Since the adoption of an optional LMS plan will thus result in a net loss of revenues to the telephone company, that loss, along with the costs which must be incurred to implement the LMS tariff, will be effectively shifted to and recovered from the remaining flat-rate subscribers. This policy has the effect of making LMS itself appear inexpensive, because LMS customers are not being required to defray the costs of measuring their calls or, for that matter, even the full costs of the access line furnished to them. Among other things, this cost-shifting scheme permits the telephone utilities to seemingly "justify" increasing the rate differential between flat-rate and measured-rate service, thereby inducing more customers to migrate to the LMS option. However, in the long run, once a sufficiently large migration has occurred, customers will see their monthly access rates and per-call usage charges escalate, because the population of flat-rate subscribers - who have up to that point absorbed much of the costs and revenue losses arising from LMS - will have dwindled to the point where these costs will have to be shifted back to the LMS customer. By then, of course, the total cost of local telephone service will have increased because of the investment and expenses required to count and bill local usage on a per-call basis.

Mythology notwithstanding, the telephone industry sees LMS, first and foremost, as a means for generating large amounts of revenue, no matter what the cost.

While the telephone industry will undergo considerable structural change over the next few years, it seems clear that local companies' monopoly position in the local telephone service business will be preserved. It is thus not surprising that the industry will now focus more attention on the pricing of its remaining monopoly services, and LMS offers an attractive method for generating large amounts of additional revenue. Whatever initial LMS rate level is advanced as a means for gaining initial approval for the pricing plan, it is clear that the industry's long range plans are to escalate local message charges. AT&T's 1979 Measured Service Implementation Guide states quite plainly that:

> Residence flat rate option should be continually increased until a contributory level is reached and the price differential between MS and flat rate is significant enough to influence customer choice...
>
> MS implementation should be considered as a means to an end -

> contribution for Local Exchange usage...
>
> The Impact Study indicates that provision of an Optional Premium Residence Flat Rate class of service can mitigate the expenses and investment associated with a Measured Service Tariff, and provide additional revenue from those customers who choose to pay a premium for the Optional Residence Flat Rate.

Clearly, the telephone utilities are pursuing policies which are in their own self-interest. However, all of the available evidence indicates that LMS is not in the best interests of ratepayers. While regulators have a legitimate concern for the overall financial viability of the utilities under their jurisdiction, they also have a clear responsibility to protect the consuming public from unnecessary costs and inefficient operations. LMS will introduce enormous increases in the overall cost of furnishing local telephone service in the United States at the very time that financial support for local telephone service from other telecommunications services is being phased out. Rather than resolve the problem of rising local telephone costs, LMS will only result in higher local rates and in a higher total cost of furnishing telephone service to all customers.

ACCESS SERVICES AND ACCESS CHARGE POLICY

Historically, the roughly 25% of the costs of access which have been assigned to the *interstate* jurisdiction have been recovered entirely through usage charges included in the prices of interstate long distance calls. At present, interstate long distance prices include approximately 15 cents per minute for the recovery of non-traffic-sensitive access line costs. Despite various semantic devices which have been constructed to characterize this in different terms, there can be no doubt that, *from an economic standpoint*, the *clear effect* of this arrangement is a subsidy which flows from usage to access. The current magnitude of this subsidy is approximately $8-billion in the interstate jurisdiction; at the intrastate level, similar pricing devices result in additional subsidies of this same magnitude flowing from usage to access.

In its Access Charge decision (Docket CC 78-72), the FCC has determined that the jurisdictionally-assigned access costs which fall under its interstate authority should be recovered through fixed end-user charges, rather than through per-call usage charges. Thus, over a six-year transition period, the interstate portion of the overall costs of access would be shifted from per-call usage charges to per-access line fixed monthly rates. In theory, the increase in monthly charges should be exactly offset by a *reduction* in interstate long distance rates; the extent to which this may not occur in practice is the result of conditions not directly related to the access charge issue. Thus, all other things being equal, the *average* customer should experience no change in his total telephone bill as a result of the FCC's action, since the increase in the monthly end-user charge should be exactly offset by a reduction in long distance usage charges. Customers whose toll usage is less than average will experience small increases in their overall bills, while those with greater-than-average toll usage levels will realize reductions. While the increases to be experienced by low users may sound large when expressed in percentage terms (because the base for this calculation is so low), the dollar amount is small both in absolute terms and in relation to most other price changes which consumers have experienced in the economy in recent years.

End-user charges and the "bypass" issue

One of the consequences of the existing pricing arrangement is that usage is overpriced relative to its cost. Consequently, some relatively large users have sought alternative methods of providing for their telecommunications needs so as to avoid the access subsidy. While some of these arrangements may be beneficial to customers only in the pecuniary sense - i.e., because they are not subject to the access line subsidy - others are the result of genuine technological advances which have been stimulated by the presence of competition in the telecommunications industry. Stimulation of "uneconomic bypass" by above-cost pricing of local and long distance telephone usage is not in the public interest, but promotion of innovative technological advances which push the state of the telecommunications art clearly is. Unfortunately, from a customer's perspective, there is no obvious means by which an economically inefficient solution may be distinguished from one which possesses genuine economic substance; faced with above-cost prices for carrier-provided local and long distance services, customers will elect "bypass" alternatives whenever these appear to be less costly from their own standpoint.

The FCC's Access Charge decision and recent legislative proposals provide alternative methods for dealing with the "bypass" issue; the FCC's approach is clearly superior. Under the FCC's formula, usage charges would be brought down to the level of cost because the access line subsidy would, ultimately, be eliminated. Under this scenario, bypass would occur only in those instances where it represents a genuine economic improvement over existing services and resources; customers, acting in their own interest, would be confronted with pricing signals for the various carrier and bypass alternatives which would result in efficient decisions fully consistent with the national interest.

The "solution" proposed by opponents of end-user access charges would retain the existing access line subsidy but would protect that subsidy by largely eliminating the possibility of any bypass - including those arrangements which improve the efficiency and reduce the cost of the nation's telecommunications resources. In so doing, the prohibitions would have a chilling effect upon the level of risk-taking and pace of technological innovation which has characterized the U. S. telecommunications industry over the past decade.

Bypass and "universal" service

Much of the debate over the "access charge" issue has, unfortunately, been clouded by considerable emotional rhetoric about the "affordability" of basic telephone service. From an economic standpoint, the issue can be framed quite simply: Will the small increases in the level of basic monthly telephone rates resulting from the transfer of access line costs to the end user so adversely impact the universality of telephone service that the nation should forego the efficiencies and opportunities which cost-based pricing of access and usage will provide? Secondarily, if and to the extent that universal service is threatened by the general shift in access costs to the end user, are there alternative means for protecting universal service short of the absolute perpetuation of the existing access line subsidy? The answer to the first question is "no," and the answer to the second is "yes."

Despite the rhetoric, all hard evidence on the subject continues to indicate that the demand for basic residential telephone service is highly inelastic, and that the small dollar increases in the monthly charges resulting from the FCC's access charge decision will not materially reduce the level of penetration of basic access in the residential market. Universal service for those small segments of the residential population which exhibit a higher propensity to discontinue their telephone service - in the high-cost rural areas and among the urban poor - can be accomplished through a system of targeted subsidies - contemplated by the FCC - at far lower overall cost to the nation than retention of the existing general subsidy. Moreover, as I have previously discussed, it has never been demonstrated that low- and fixed-income consumers are also low users of telephone services; perpetuation of usage-to-access subsidies may actually be less effective in assuring adequate telephone service for such individuals than a targeted subsidy plan. Like all other sectors of the economy, there are no "free lunches" when it comes to telephone service: If consumers do not pay for their residential access lines directly through end-user charges, they will pay for them in other ways, through above-cost prices for local and long-distance calls (at both the interstate and the intrastate levels) and through the prices of other goods and services whose suppliers must recover their inflated telecommunications expenditures. Moreover, consumers will inevitably pay more for their basic telephone access by this means than through a system of direct cost-based rates. Legislative efforts to artificially shift the direct payments for telephone services from one sector of the economy to another will not succeed in protecting consumers from higher telephone costs; to the extent that these efforts reduce the overall efficiency with which telephone services are furnished, the cost burden imposed upon consumers, while perhaps camouflaged in the prices of other goods and services, can only increase.

Telecommunications and the "cost of doing business"

This last point deserves additional discussion. As our nation moves away from a product-based economy toward an "information-based economy," the role and importance of telecommunications increases. Indeed, telecommunications bears the same relationship to an information-based economy as transportation does to a product-based economy. Artificial interference with the smooth movement of goods and services can have far-reaching effects on the basic health of our economic system, and the same is true for the "transportation" of information through our telecommunications networks. Imposition of the burden of the access line subsidy upon U. S. business and industry increases the cost of doing business, and the prices of goods and services generally, and reduces the competitiveness of this country in the international marketplace. Destimulation of innovation in both the provision and use of telecommunications services will inflict permanent and irreparable damage to our nation's ability to maintain a strong competitive edge in the information-based economy of the future.

ATTACHMENT 1

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Table 12

NEW YORK TELEPHONE

COSTS OF MEASUREMENT AND BILLING OF LOCAL MESSAGE-RATE MESSAGES

L1. 1982 AMA investment	$88,731,936		Tr.1197 req.
L2. Composite XBAR COE annual charge factor	0.4858		LoSchiavo Ex. Pt.A p.11
L3. Rate year AMA annual carrying charges		$43,105,975	L1 * L2
L4. Land and buildings factor	0.2016		Note 1
L5. Land and buildings investment	$17,889,380		L1 * L4
L6. Land and buildings annual carrying charge	0.4226		Note 2
L7. Land and buildings expenses		$7,559,694	L5 * L6
L8. Rate year Commercial and marketing expenses		$16,753,906	And wkprs A-1-D23
L9. Case 28264 rate year coml & mktg exp	$12,150,532		Case 28264 And wkprs A-1-D23
L10. Expense growth Case 28264 to Case 28601	1.3789		L8 / L9
L11. Case 28264 message acctg expenses	$18,617,615		Case 28264 And wkprs A-1-D24
L12. Projected rate year message acctg expense Case 28264 basis		$25,671,121	L10 * L11

L13. Total rate year measurement costs		$93,090,695	
L14. Rate year message-rate messages	8896351772		Anderson wkprs A-1-D19
L15. Rate year measurement cost per message		$0.0105	L13 / L14

NOTES:

(1) Land and buildings factor is based upon ratio of L&B to AMA investment provided by NYT in Case 28264:

L&B	$19,975,743
AMA	$99,080,367
Ratio	0.2016

(2) Composite L&B charge factor based upon LoSchiavo Exhibit weighted to reflect larger proportion of Bldg. invest.

Land	0.3685	20%
Bldg.	0.4361	80%

SOURCE: L. Selwyn Exhibit 153,
New York PSC Case 28601, Table 16

Table 8

NEW ENGLAND TELEPHONE - MAINE

ANNUAL COSTS OF LOCAL MESSAGE MEASUREMENT AND BILLING INCLUDING COSTS OF LOCAL OPERATOR SERVICE

	Msgs	Mins.	Cents/msg	Peak cst	Off-peak cst	Total cost
Residence	445660000	1711334400	0.3084	$1,165,704	$208,569	$1,374,273
Business	148555000	303052200	0.2644	$355,361	$37,436	$392,797
Total	594215000	2014386600	0.2974			$1,767,070
NET-Maine operator assistance frequencies:			0.1957			$1,162,985
Total			0.4931			$2,930,055
GTE operator assistance frequencies:			0.3624			$2,153,676
Total			0.6598			$3,920,746

Table 3

PACIFIC NORTHWEST BELL - OREGON
LOCAL MEASURED SERVICE COST/BENEFIT ANALYSIS

SOURCE: Pacific Northwest Bell Information Response, Item 17

TABLE 3

It is fair to pay on the basis of cost and on individual usage. In every jurisdiction where measured service has been introduced, many subscribers have benefitted in terms of reductions in their telephone bills. Those subscribers who use the network a lot, pay more. This elimination of the cross subsidization is inherently fair to both the users and the company.

In addressing the "cost/benefit" test, the costs for measuring local calls and the attendant savings from a reduction in local usage can be identified. Given today's electronic switching capabilities, no physical equipment is added in order to record directly dialed local or long distance calls. All that is required is to dedicate a portion of the software capacity of the call store module which assists in directing the operation of the switching machine, and associated AMA equipment. The costs for using a portion of this software capacity are $.0095 to 'set-up' the call and $.0009 for each minute the call is in process during the busy hour.

In addition to Central Office costs, there are other usage related billing costs that arise as a result of billing local usage. These are data systems costs for processing calls through the mechanized billed system. These average $.0031/call. (In addition, there are line related costs for such things as preparation of an additional bill page, that are not usage sensitive. When allocated on a per call basis, this adds $0.0016 to each message.)

Both the computer software and the physical components of a local switching office are engineered to handle certain volumes during each individual offices 'peak' or busy hour. To the extent that calls during the busy hour are repressed or shifted to other hours, then office replacements, equipment additions, etc., can be delayed or eliminated if everything else remains equal (e.g., the forecasted growth in main stations, etc.), and as long as a new busy hour in a different time period is not created. The cost savings in terms of reduced switching and trunking requirements during the busy hours for each call is $.1760 to set up the call and $.1129 each minute the call is in process.

It should be clearly understood that usage sensitive rates recover these costs and are not subsidized from other sources. The ratepayer, when evaluating the value of placing a call at a known rate, who then makes the call, pays the incremental cost to measure and bill that call.

Given this data, a partial cost/benefit test, using business services, can be completed; one that does not attempt to quantify and include the other factors and benefits outlined above. The following information is also required:

Class of Service	# of[1] Access Lines	Avg. Calls[2] Per Line/Month	Total Calls-Mo.
IFB	47,328	206	9,749,568
IFBKT	69,701	262	18,261,662
PBX	18,701	434	8,116,234
Centrex	51,716	90	4,654,440
			40,781,904

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TABLE 3

1 May 1983 data.
2 4/24/83-5/12/83 SLUS data - CTX is 5/23/83-6/1/83 - SLUS data adjusted against 1.10.

The costs of billing and measurement are therefore calculated as follows:

- Cost of measurement during the busy hour, based on an average 2.5 minute call; 40,781, 904 * .95[4] * .11[1] * $.0118[2] = $50,288 per month.

- Cost of Billing; 40,781,904 * .95[4] * $.0047[3] = $182,091 per month.

1 % of calls in the busy hour.
2 Busy hour measurement costs.
3 Billing cost per message.
4 Less 5% repressed messages.

Repression of local calling has been experienced in other jurisdictions when usage sensitive pricing has been instituted. Assuming 5% repression of calls in the busy hour, i.e., calls that are foregone or are shifted to non-busy hour periods via incentive pricing options, -- the potential cost savings are:

40,781,904 * .11[1] * .05[2] * $.4583[3] = $102,797

1 % of calls in the busy hour.
2 5% repression.
3 Busy hour switching and trunking costs for an average 2.5 minute call.

As one can see, using the cost/benefit measure as outlined above, the cost savings recover the cost of measurement, and partially offset the cost of billing.

The result of these calculations indicate that there is a 'cost' [$102,797 - ($50,288 + $182,091) = $129,582, or $.0032 per message] as a move to measured service. (Note: These expenses are fully recovered by usage rates.)

Mr. **Wyden**. Mr. Simon, the task force would like any opinions you have on local measured service in Chicago, New York, et cetera for the record from consumer groups. We are trying to collect all the information we can around the country.

Ms. **Claybrook**. In the State of Texas, Public Citizen has been active with some other organizations, and you are probably aware of the fact that that proposal was withdrawn. I would be pleased to submit information on Texas for your record.

Mr. **Wyden**. That would be very helpful.

[See the appendix for additional information supplied by Public Citizen.]

Mr. **Wyden**. The toughest part about this has been to try to gather accurate information about how all these changes are affecting small businesses. Whether citizens agree with everything said here this morning is probably as important as the fact that all of you on the front lines are the ones who are gathering the data.

So we welcome whatever you can send us, and all of that is very helpful. There is a tremendous information gap out there now, where we just don't have the facts.

Mr. Skelton has been tenacious on this issue, by saying it is very hard for us to even know how we begin until we get information on fixed and nonfixed costs and experience in various States with local service. You perform a great service by getting us data and the viewpoints of individuals.

Mr. **Lilly**. For your immediate attention, this is one of the areas that I left out, in the interest of time.

I have firsthand knowledge of the circumstances surrounding the withdrawal of Southwestern Bell's proposal for local measured service in the news release, it was released by them that they were withdrawing this proposal on August 31, I believe.

The public hearing on the merits of this proposal was scheduled for yesterday before the Public Utility Commission.

That public hearing was obviously canceled. Southwestern Bell has appointed, or is in the process of appointing a panel of consumer interests to work with them on what might be acceptable pricing strategies and options.

I guess I was privileged to be asked to serve as a member of that panel.

They indicated maybe a half a dozen people, so maybe if I ever have a chance to appear before you again, I will have additional inside insights into some of these reasons for the request for drastic increases in rates in the future.

I thought you might want to reflect that in the record, that we feel that we had achieved a major victory, and it was no undue pressure, other than just speaking out on this.

To use their words, or the words of the Vice President, it was because of their well-organized, articulate and nonemotional testimony presented at these eight hearings in the State of Texas in opposition to local measured service that they thought it prudent, politically advisable or what have you, to pull down their request.

Mr. **Wyden**. Mr. Lilly, you make an interesting point, and I have to go back and check the record of the hearing in Kansas City, but I asked the representatives of Southwestern Bell at that hearing, whether they had any plans to go ahead with measured service in their service region, and they said no.

I asked them why, and I remember to the best of my knowledge, being impressed with their answer. They said that there was no need to have mandatory measured service because the proposal could sell itself on its merits.

For that reason, they were not going ahead with any mandatory measured service proposals. I remember being very impressed with their point. They were not going to require anything of the citizens from their region, but if someone wanted it, so be it, that was their option.

Now, what you have said here in the last couple of minutes does not square with my best remembrance of what was said in Kansas City. I am going to go back and take a look at the record, and I appreciate your pointing that out.

Mr. LILLY. The key, so I am not misinterpreted here, you flipped in another adjective to the local measured service, mandatory.

Mr. WYDEN. I see.

Mr. LILLY. This has been the corporate policy all along. Oh, we are just going to put this in optionally, which sets off the spiral, and the reason for drastic increases, measured service, and then flat rates start to come up on a spiral basis until they both wind up leveling off up here at tremendously high levels.

Mr. WYDEN. I see. So what was withdrawn was a proposal in the region for optional?

Mr. LILLY. Even optional measured service.

Mr. WYDEN. I see. And you and your organization opposed that as well?

Mr. LILLY. Even on an optional basis, considering the spiraling effect it would have on escalating residential rates, regardless of what you call them.

Mr. WYDEN. That makes what happened in Kansas City square with what happened here.

Mr. LILLY. This was one of the big selling points, to sell this concept and gain public support. Oh, it is just optional, you can take it or leave it.

Mr. SIMON. We found that to be a particularly effective selling tool. Look at our chart. Most of the States that have recently gone to measured service have bought the idea about optional.

There is a responsibility to reject even an optional service if it is not in the public interest, and LMS is not, whether optional or otherwise.

Second, on the cascading effect, we studied the District of Columbia and testified before, we found the potential for this same cascading effect where more people at the margins would move from flat to the measured, and to emphasize a point, they claimed roughly 33 percent of the people would save, on average, 20 percent if they went to measured service. Sixty-seven percent, on average, would have paid 100 percent more if they went to measured service, and obviously, the goal, 30 percent to save 20 percent, but the rest that will eventually be on measured service, paying 100 percent more.

Mr. WYDEN. Let's leave the record open on this issue of measured service, optional, as well, and any information you could give us would be helpful.

[See appendix on additional information provided by Public Citizen and TRAC.]

Mr. WYDEN. I have had a number of older people in my district come up to me and say they like the option. In other words, they wouldn't be an individual who would be in a position to need the telephone constantly.

They would be making a small number of calls, and they have come to me and said, "Ron, we agree with you on this mandatory measured service proposal which we had then, but you are not going to do anything about taking away the option to do it."

We are going to need some additional data and additional information. I understand your argument, Mr. Simon, that you feel once you make it optional, that that affects the whole revenue base, and what it is going to do for the system.

I only ask for more information, because I think that the members, like myself, do hear from some consumers who say, we like the option as one of the alternatives.

Mr. SIMON. You can still have a budget or economy rate service available without having to measure by the minute.

Mr. WYDEN. That is a good point, and we may be talking about semantics here, what some people call budget may by other people be called something else.

Mr. Lilly has already cleared up some confusion that was in my mind, based on the Kansas City hearing, as opposed to this one.

Mr. KIMMELMAN. One other thing you may consider trying to find out: Is any phone company that wants to offer optional measured service also willing to put a cap on the flat rate service or a cap on what the difference would be between those service options. Individual consumers may benefit from measured service, but over the long run, we are worried about the aggregate effect, what is coming next, and the overall impact on the entire community.

Mr. LILLY. The cap is a point very well taken. How many of them would be willing to extend that dotted line across those local measured service parts?

Mr. WYDEN. I understand your argument about the cap. Somehow, this would create an automatic rate increase, and we will consider your suggestion, as we will consider all the suggestions made to the task force.

I don't have to tell you that we are searching for practical, hardheaded suggestions that are going to pay off for small business, that we can use as we rewrite the Communications Act next year. Your suggestions are welcome.

We will keep the record open for additional information. With that, the task force will stand recessed until 3 p.m. where we pick up on the issue of bypass.

AFTERNOON SESSION

Mr. WYDEN. Let's begin the afternoon session and I apologize to all of you for the delay in getting started. We very much appreciate your coming today and I have already read your testimony. It is excellent. In fact, I think one of the suggestions that was made to apply the principle of regulatory flexibility to try to reduce some of the paperwork that small telephone companies face is an excellent idea. We are going to try to get the FCC to do that. If they won't do it of their own accord, I plan to introduce legislation to get it done. You have offered us an excellent suggestion and we look forward to your testimony.

Our first panel is going to deal with rural and small telephone company issues and our next panel will deal with the bypass. Let us begin with E. Bruce Hagen, North Dakota Public Service Commission, and we will make a prepared copy of your remarks part of the record, Mr. Hagen, and if you would just summarize your views, it might be helpful so we will have time for questions.

TESTIMONY OF E. BRUCE HAGEN, PRESIDENT, NORTH DAKOTA PUBLIC SERVICE COMMISSION

Mr. HAGEN. Thank you very much.

I would like to first congratulate your task force for the study that you are going through and the hearings which have been very helpful I think now and for the future for the problems we see for telephone telecommunications service in rural areas. I hope—and I am sure I am speaking for all of NARUC and the commissioners in the United States—that we do hope you would continue, the committee would continue, this type of study on into the next session of Congress, because I think it is a very good idea.

I do appreciate the invitation to appear today on behalf of the National Association of Regulatory Utility Commissioners, commonly called NARUC, and also my State of North Dakota, where I am a long-time farmer, to address the continuing need for universal service available at reasonable charges for all the rural areas in our State and the United States.

I would like to also introduce Jill Roe, who is here with me as attorney for NARUC and, additionally, Tom Harris is here from Dickinson, ND. He is an excellent manager of the Consolidated Telephone Cooperative, one of the best I think in the country, and in addition, Kozar Roe, who is chairman of the board of Dixie Rural Telephone Co. and vice chairman of the State Cooperative Association. They are here.

Wide open spaces are a characteristic of North Dakota. We have a total area of 70,702 square miles. With approximately 680,000 people, our State is one of the least populated in the Nation. I don't think you would be surprised to hear that 77 percent of the businesses in North Dakota have fewer than 10 employees and 90 percent of the businesses have fewer than 20 employees. The North Dakota average income is lower than the national average. Approximately 13 percent of those 65 years and over have incomes below poverty level.

In a rural State a telephone, a good telephone system is essential to social, commercial, and agricultural activities. When comparing the telephone system in North Dakota with those of other States, it became obvious that the whole State could be considered rural in nature, yet despite the wide open spaces, our State has one of the finest telephone communications systems in the world. The service is adequate and it is available to virtually 100 percent of the residents at a reasonable price.

If I can digress for just a moment. This morning I tried to call back to my State about four times and the phones in the Rayburn Building didn't work because, apparently, the circuits were overloaded. I tried about four different times, over several hours, and I did have a feeling that I am hoping that when President Reagan is campaigning he is not walking on the sidewalk someplace and there is a national emergency where he has to use a pay phone because he might be in trouble.

Mr. **Wyden**. We appreciate your not trying to bypass the system.

Mr. **Hagen**. Certainly not. Last winter, on December 23, we had 2 weeks of severe weather in North Dakota. I live in Bismarck by the Missouri River, and I sat in my living room and there was a 100-degrees-below-zero windchill and I was able to call anyplace in North Dakota. I don't recall anybody dying in that storm. Obviously people called home or called their farms or whatever, but we managed to get through, and I think that is really a good idea of what a modern telephone system can do, because we do have that. We have got a stormproof system, people can call back and forth for business or pleasure or whatever, and that is essential.

This accomplishment also is a result of revenue which flowed from interstate and intrastate toll business to help support local service. Also, the expanded REA Program provided low-interest loan funds for use in providing telephone service. Cooperative telephone companies in the State have investments that range from $1,100 to $1,800 per telephone, with an average investment of $1,350 per telephone. We know that the investment per access line is higher than these figures because some lines have more than one telephone.

Any shift in the delicate balance between toll subsidies, REA funds, and local revenue will cause local rates to change and/or cause quality of service to change. Whereas in some States rates may go down, in North Dakota we are concerned that rates will not go down, but instead that they will go up. We are also concerned that eventually, in order to keep rates reasonable, quality and availability of service will suffer.

We are very appreciative of the telephone system we have. We are also quite aware that we would not have a quality system if the telecommunications industry had been in a wide-open competitive environment.

Right now, we have a system of local company revenue recovery in which competition has been allowed to enter and it appears that there is no way to return to the old method of compensating the exchange carriers. We know that to eliminate this long-distance carrier contribution altogether would spell disaster for the local exchange companies. So we, as policymakers, are certainly concerned and are taking it upon ourselves to determine the correct balance between two ideals. This balance is the one that will be most beneficial to the entire country and the one that will encourage technological advancements without placing too much stress on universal service.

Might I also suggest that the balance point will be continually changing. The States and the Federal Government must cooperate to monitor and follow that balance point without making Government oversight an obstacle to the industry. I think the States must be allowed, under flexible Federal guidelines, to set policy within the States.

The North Dakota Public Service Commission has voiced its support for the principles in what is called the St. Louis Resolution. The resolution was adopted by the NARUC's Communications Committee on May 8, 1984, and the association's executive committee on July 25, 1984. The resolution proposes that each State "recover under a single set of access tariffs, interstate costs allocated by the joint board for all interexchange use of local plant within each State."

What we can't support is the FCC end-user access charge which creates what is in effect a local service charge for telephone subscribers. Especially hard hit under such a plan will be the rural telephone users, both residential and small business, who already live in high-cost areas and who do not have the benefit of competition with an interstate carrier to help offset the access charges. In my written testimony I have elaborated more on the problems that rural areas have with access charges, accelerated depreciation as well as toll rate deaverage.

NARUC is greatly concerned that the rapid changes occurring in the telecommunications industry will have many negative impacts on the rural telephone user and we are greatly relieved that some Members of Congress share our concern.

I thank you very much for your attention.

Mr. WYDEN. Thank you very much, Mr. Hagen. I know we will have some questions.

[Mr. Hagen's prepared statement follows:]

PREPARED STATEMENT OF E. BRUCE HAGEN, PRESIDENT, NORTH DAKOTA PUBLIC SERVICE COMMISSION

My name is Bruce Hagen. Presently I am serving my 24th year on the North Dakota Public Service Commission. In January of 1983 I became President of the Commission.

I am a member of the National Association of Regulatory Utility Commissioners (NARUC) and serve on the Executive Committee and as Vice Chairman of the Committee on Communications of NARUC. In December, 1983, I was appointed to serve on the Advisory Council for the State Regulatory Communications Study Project conducted by the Annenberg School of Communications.

I was born in Devils Lake, North Dakota, and have lived the majority of my life in the Flickertail State. Also, I am a long-time farmer in Benson and Ramsey Counties where I am currently still farming. I appreciate the invitation to appear on behalf of both our State and NARUC to address the continuing need for universal service available at reasonable charges for all the rural areas in our State and country.

North Dakota

Wide open spaces are a characteristic of North Dakota. We have a total area of 70,702 square miles. With approximately 680,000 people, our State is one of the least populated in the nation. Forty-nine percent of our citizens live in what we in North Dakota call urban areas, while the remainder of the population is spread across the State. The average density in our rural areas is close to one person for every five square miles. In the rural areas, 10 to 15 percent of the population is 65 years of age and over. In the urban areas, the percentage of the population over 65 seems to be more in the range of 9 to 10 percent. Our largest city is Fargo with a population of about 65,000.

I don't think you would be surprised to hear that 77 percent of the businesses in the State have fewer than 10 employees, 90 percent of the businesses have fewer than 20 employees.

North Dakota's average income is lower than the national average. Approximately 13 percent of those 65 years and over have incomes below poverty level.

The Telephone System

In a rural State, a good telephone system is essential. Telephone service in North Dakota is provided by a combination of companies made up of the Bell System, 11 rural telephone cooperatives, and 11 independent companies. These companies provide local service in 258 exchange areas, and serve approximately 250,000 customers. The Bell system serves 73 percent of those customers in a service area that represents 41 percent of the state. The rural telephone cooperatives serve 16 percent of the total customers in over 48 percent of the area of the State, and the independents serve 11 percent of the customers in an area covering 11 percent of the State.

When comparing the telephone system in North Dakota to that of other States, it becomes obvious that the whole State could be considered rural in nature. Yet, despite the wide open spaces, our State has one of the finest telecommunications systems in the world. The service is adequate, and it is available to virtually 100 percent of the residents at a reasonable price.

Our people have supported first-class telephone service. All of our telephone companies have worked very hard and have worked together to bring the best possible telephone service to our people. The management of our telephone companies and their various boards of directors for all companies is the best in the world.

This accomplishment also is a result of revenue which flowed from interstate and intrastate toll business to help support local service. Also the expanded REA program provided low interest loan funds for use in providing telephone service. Cooperative telephone companies in the State have investments that range from $1,100 to $1,800 per telephone (with an average investment of $1,350 per telephone). We know that the investment per access line is higher than these figures because some lines have more than one telephone.

Any shift in the delicate balance between toll subsidies, REA funds, and local revenue will cause local rates to change and/or cause quality of service to change. Whereas in some States rates may go down, in North Dakota we are concerned that rates will not go down, but instead that they will go up. We are also concerned that eventually, in order to keep rates reasonable, quality and availability of service will suffer. Perhaps not the quality of the system as it exists today, but the quality of tomorrow's rural telephone system. This, in turn, will have an effect on the nation as a whole, since good telephone service at a reasonable price is vital to social, commercial and agricultural activities.

We are very appreciative of the telephone system we have. We are also quite aware that we would not have a quality system if the telecommunications industry had been in a wide-open competitive environment. Traditionally, a substantial portion of exchange carriers' fixed plant (non-traffic sensitive or NTS) costs were recovered in the rates of long distance carriers, in recognition of those carriers' use of local telephone facilities to complete long distance calls. This form of recovery was deliberately created, as a social goal, the rationale being that telephone service was more valuable to each user as more and more customers were added to the system.

An industry wholly dictated by competition is an entirely different system, mostly concerned with economic efficiency. Prices are reduced in the elastic markets, those markets to which cheaper alternatives may be available. Prices are increased in the inelastic markets, those markets that have no other alternative short of doing without the service.

Right now, we have a system of local company revenue recovery in which competition has been allowed to enter and it appears that there is no way to return to the old method of compensating the exchange carriers. We know that to eliminate this long distance carrier contribution altogether would spell disaster for the local exchange companies. So we, as policymakers, are certainly concerned and are taking it upon ourselves to determine the correct balance between two ideals. This balance is the one that will be most beneficial to the entire country and the one that will encourage technological advancements without placing too much stress on universal service. Might I also suggest that the balance point will be continually changing. The States and the federal government must cooperate to monitor and follow that balance point without making government oversight an obstacle to the industry.

I think the states must be allowed, under flexible federal guidelines, to set policy within the States. The States must be allowed to experiment, to find what will work, what makes sense, and to gather data for the federal government's use in formulating future policy. The intent of the federal system is to allow the States to be laboratories in which to experiment and to try different ideas, different policies, to find what makes sense and will benefit consumers and companies alike.

I would like to continue by discussing policy changes that have been adopted thus far at the federal level and the concerns the States have in relation to those policies.

WHAT WE KNOW AND WHAT WE DON'T KNOW

FCC COMPUTER II DECISION

The FCC has, over a period of many years, promulgated rules which furthers their objective of moving to a fully deregulated, competitive telecommunications industry by the 1990s. Decisions made by the FCC in 1956 and 1968, namely the Hush-a-Phone and Carterfone decisions, opened the terminal equipment market to independent manufacturers. These actions gave birth to a flourishing, unregulated terminal equipment industry. More and more, telephone users began purchasing their own customer premises equipment (CPE), rather than leasing it from the local telephone company. The additional revenue from the lease of equipment to subscribers, which was helping to keep local rates down, was now being eroded away. Because this erosion has taken place over many years, it is impossible to determine exactly what the impact has been on our local companies. However, we know that this open market caused short falls in revenue which must be collected from sources other than the lease of CPE.

In 1980, in its Second Computer Inquiry Decision, the FCC continued to deregulate the CPE market by requiring that after January 1, 1983, any new terminal equipment provided by AT&T would be provided on an unregulated basis. This action foreclosed any contribution to local access from the lease of new equipment in the Bell system. In addition, the FCC required the transfer of the embedded CPE assets of the Bell companies to a deregulated entity. The FCC removed any contribution to local service from the lease of terminal equipment.

For cooperative and independent telephone companies, however, CPE deregulation is still in transition. New equipment has been deregulated, and embedded equipment has not. During the transition our Commission has given the cooperatives and independents a great deal of flexibility to tailor their CPE programs to meet the needs of their customers.

It has been an interesting experience and we have learned that each telephone service area is unique and different. Some companies in the most rural areas have found it beneficial to continue leasing CPE and therefore are continuing to receive a revenue contribution to local service. Other companies have experienced growing inventories of phones returned when subscribers purchase their own equipment. These companies see no future in continuing to lease and have begun programs to sell their used equipment. We believe that giving the cooperatives and independent companies flexibility to tailor their CPE programs to meet the needs of their customers has been the right solution.

AT&T DIVESTITURE AGREEMENT

On August 24, 1982, the Justice Department and AT&T reached the negotiated settlement known as the Modified Final Judgement (MFJ). The MFJ called for the ownership and control of Bell interexchange services to be separated from ownership and control of Bell local exchange facilities. Propagated from the MFJ were AT&T's Plan of Reorganization, the establishment of LATAs, transfer of assets, the need for a new method of toll revenue sharing between AT&T - Bell - Other Common Carriers and the local exchange companies, and new meaning to the idea of competition in the telecommunications industry. The MFJ also required that the BOCs provide non-discriminatory access to all interexchange carriers. In other words, access to all carriers equal in type and quality to that offered AT&T.

The MFJ brought several new challenges to the Bell system.

In order to divide the assets between the Bell Operating Companies and AT&T, and also to define the new areas of service for each entity, the nation was reorganized into exchanges called LATAs. Although the transfer of assets was finally decided, it will undoubtedly take many years or may never be determined if the amount of assets transferred was accurate or what the impact on local exchange rates was.

The extra boost into the competitive world has caused the Bell companies to reexamine depreciation rates on plant investments. A comparison of their depreciation rates with those of MCI or Sprint has triggered concentrated efforts to raise those depreciation rates. Perhaps the Bell companies do need higher depreciation rates in areas where they have a great deal of competition and perhaps they need lower rates where competition is not as common. Whatever the case, I believe the States are in the best position to determine those needs, and I believe the jurisdiction over depreciation rates should be shifted to the states.

Certainly the States have had a good working relationship with the FCC which we would expect to continue, but with the new reorganization, jurisdiction over those rates appropriately lies with the States. Once again, in this time of changes, the States usually are more sensitive to the needs of the local subscribers.

FCC ACCESS CHARGE DECISION

On December 22, 1982, the FCC, in conjunction with its investigation into the structure of interstate rates, addressed the need for a new method of compensating local telephone companies for their participation in providing interstate calls. This decision is significant because it involves billions of dollars. In the State of North Dakota in 1982, settlements related to only non-traffic sensitive costs were in the neighborhood of $40 million.

The new plan, designed to eliminate the contribution paid by toll users to the local exchange was constructed of several elements.

One element of the decision stated that the local exchange usage-sensitive costs of providing long distance service would be charged to interexchange carriers by the local exchange company.

Another element of the decision stated that the fixed costs of the local exchange network previously assigned to the provision of long distance calling that are not sensitive to usage (NTS costs) would be paid by local subscribers through a flat monthly charge called the end user charge (usually called an access charge). These flat charges would begin at $2.00 for residential subscribers and $6.00 for business subscribers and grow to cover all NTS costs after a suitable transition period.

A third element of the FCC decision established a universal service fund made up of money collected from interexchange carriers to help support local exchange companies whose total NTS costs for relevant-study areas exceed 115 percent of the national average.

The FCC's access charge decision has created a great deal of controversy at the State level and I believe the access charge decision needs additional fine tuning before the balance point between the competitive ideals and the universal service ideals is reached. It is this fine tuning that must be completed through cooperation at both the federal and State levels.

QUESTIONS AND ANSWERS

> 1. How will the proposed changes (access fees, accelerated depreciation, and deaveraging) in the telecommunications industry affect the cost of telephone service in rural areas? How are these changes likely to affect small business?

Access Fees and Local Exchange Rates

The NARUC has actively opposed the FCC's decision to establish an end user access charge plan to compensate local telephone companies for the use of their facilities to provide interstate communications. The Association appealed the FCC's February 28, 1983 decision (NARUC v. FCC, Docket No. 83-1225) and we actively sought Federal legislation that would have reversed or delayed the access charge decision. Unfortunately, we did not succeed on our appeal and Communications Act reform legislation in both houses of Congress died when the Senate defeated S.1660, a bill proposing Universal Telephone Service Preservation Legislation.

The FCC, in its access charge decision, has chosen to promote competition in the toll market by shifting the costs of non-traffic sensitive plant assigned to interstate toll onto the local subscribers in the form of end user charges. This creates what is in effect a local service charge for telephone subscribers (since it is not tied to the use of the interstate network and is a precondition to obtaining local service). Especially hard hit will be rural telephone users, both residential and small business, who do not have the benefit of competition between interstate carriers to help offset the access charge. The Communications Act of 1934 denies the FCC jurisdiction to impose such charges on the intrastate network. Ultimately, the access charge decision will have varying effects across the state because rates for residential service vary across ~~the~~ our state. Please allow me to site an example. Let's assume that the interstate end user charge begins at $2.00 but grows to something around $4.00. That is, each residential subscriber will have an additional $4.00 added to his bill. A local exchange company that has a residential rate of $18.00 will be affected to a greater degree than one with a current rate of $9.00. A low income subscriber who must pay $22.00 will have more incentive to drop service than one who must pay $13.00. As you can see, requiring a $4.00 end user charge in every local exchange is not the best way to help rural companies serving high cost exchanges. Some flexibility is required.

In addition, the NARUC is concerned that most small rural businesses will not realize any savings from a reduction in long-distance rates and will end up having to compensate for the additional access charge by passing their higher costs on to rural customers.

Preemption of State Authority Over Depreciation Methodologies

Another issue of great concern to State regulators is the FCC's January 1983 decision to fix telephone company depreciation schedules (CC Docket No. 79-105) for intrastate ratemaking purposes. These schedules are a key factor in determining local rates. The NARUC asserts that authority for the setting of depreciation rates and accounting methods for local telephone companies providing intrastate service is reserved to the States under the Communications Act of 1934. The NARUC appealed this FCC decision in February 1983 [sub nom. Virginia State Corporation Commission v. FCC, Docket No. 83-1136 (4th Cir.)]. Unfortunately, on June 18, 1984 the U.S. Court of Appeals for the 4th Circuit affirmed the FCC's decision by a 2-1 margin.

The FCC's decision to preempt State authority over depreciation methodologies for intrastate ratemaking purposes exerts yet more upward pressure on local telephone rates. The FCC order gives the FCC the authority to force States to adopt FCC-approved accelerated depreciation methodologies for exchange and intrastate toll plant. The decision also requires exchange carriers to change their accounting treatment to expense rather than capitalize the costs related to station connections. The cumulative effect of this decision will be higher monthly telephone bills for ratepayers as the ratepayer bears the additional costs from the change in accounting methods as well as the increase in rates due to accelerated depreciation methods. For the rural areas, which are already high-cost areas to serve, the cost of basic telephone service may easily become too much of a financial burden to bear each month. Telephone service should never become a luxury for anyone, but it is particularly unfair to the rural customer who often must rely solely on the telephone for quick access to emergency facilities and places of business, as well as the whole fabric of rural social life.

The NARUC submits that the prescription of accounting practices and depreciation rules is an integral part of intrastate ratemaking and is an essential tool to enable State regulators to maintain universally available and affordable telephone service.

Toll Rate Deaveraging

The purpose of the MFJ and the FCC access charge decision was to increase competition in the telecommunications industry. The MFJ established LATAs defining areas of competition, and the access charge decision established the framework for charges to access those LATAs. Competition in the industry would, ideally, reduce the price of long distance service.

In the view of the States, this assumption is dependent on two factors. One factor is that the rates will come down where competition exists. This will obviously be on high use toll routes. The second factor is that toll rates will be lower where the access charges to interexchange carriers are lower.

These two factors go hand in hand. In a rural State such as North Dakota, the average cost per minute of toll calling is higher than a more urban state such as Illinois. Therefore, competition, along with the benefits, is less likely to come to North Dakota.

In addition, the costs of providing local service in North Dakota are higher. Considerable pressure exists to keep access charges to interexchange carriers as high as possible to continue the flow of toll contribution to local exchanges and minimize local rate increases.

Perhaps this sounds workable to some, but AT&T has claimed that an increase in toll rates is necessary to cover the costs of the present level of access charges in North Dakota.

In general, we are concerned that it is only a matter of time before toll rates in rural states will be higher than those in more urban states. Toll rates will no longer be averaged across the United States.

2. How can we maintain an affordable universal telephone service?

As toll rates increase, there will be increasing incentives for large companies to avoid the long distance network by installing their own microwave or similar systems. As a result, toll revenue from that subscriber will decrease or be eliminated, thereby reducing the amount of revenue the local exchange company will receive from those end user access charges. This will cause one of two events to take place: 1) Access charges will be increased to recover the lost revenue. Such action will create additional incentive for others to bypass the network; 2) Local exchange rates will have to be increased causing potential hardships to local subscribers who may drop from the network. Those subscribers with low incomes will be the first to consider telephone service optional.

As subscribers leave the local network, the fixed costs of providing service will have to be spread among fewer customers causing pressure to increase rates. Increased rates will cause more subscribers to leave the network. This domino effect will be the end of universal service as we know it today.

The scenario described above is probably a worst-case situation, however, we must be very protective of this nation's great resource, universal service. There is an old saying which fits here: "When the horse is out of the barn, he can be pretty hard to catch. You'd better put a halter and bridle on him before opening the door."

As policymakers, we must determine the balance between competition and universal service. The balance point will continually shift and we must diligently monitor those shifts to reestablish a balance. This balance must not unreasonably retard beneficial technological advançement, or promote excessive uneconomic bypass.

As partners, the States and the federal government must work to set policy with the federal government setting general guidelines and the States setting specific policy tailored to local conditions. This must be done without overburdening the industry.

Also, the States must be given the flexibility to experiment with various telecommunications policies.

The North Dakota Public Service Commission has voiced its support for the principles in what is called the St. Louis Resolution. (See Appendix). The Resolution was adopted by the NARUC's Communications Committee on May 8, 1984, and the Association's Executive Committee on July 25, 1984. The Resolution proposes that each State "recover under a single set of access tariffs, interstate costs allocated by the Joint Board for all interexchange use of local plant within each State."

This plan is different from the FCC's plan in the following manner: 1) Under the FCC's plan, local exchange companies have to file one set of access charge tariffs with the FCC for interstate interexchange service and another set of access charges with the State for intrastate interexchange service. The St. Louis Plan contemplates one set of access charges filed with the State. This would simplify the access charge tariff process and reduce administrative burdens on the local exchange companies. 2) Under the FCC's plan, a flat rate end user charge would be applied to all subscribers to cover interstate NTS costs, while the St. Louis Plan would allow the States the flexibility to recover those same NTS dollars with pricing mechanisms that are tailored to the needs of the customers. This Plan would also allow flexibility for States to respond to threats of uneconomic bypass.

CONCLUSION

Mr. Chairman and members of this Committee, the NARUC will continue its commitment to ensuring universal telephone service to local ratepayers at affordable rates. We are particularly concerned that the rapid changes occurring in the telecommunications industry will have many negative impacts on the rural telephone user who already lives in a high-cost areas of phone service.

We are greatly relieved that some members of Congress share our concern and applaud this Committee for this opportunity to speak.

Thank you for your attention.

The St. Louis Resolution
(Communication Allocations and Access Charges)

RESOLVED, That the Executive Committee of the National Association of Regulatory Utility Commissioners (NARUC) reaffirms its commitment that the Federal-State Joint Board is the appropriate mechanism to determine the interstate allocation of toll costs; and adopts the following position:

1. State commissions shall recover, under a single set of access charge tariffs, interstate costs allocated by the Joint Board for all interexchange use of local plant within each State;

2. Interstate access charge rate levels shall be set and tariffs administered by the State commissions in compliance with Federal guidelines recommended by the Joint Board and approved by the Federal Communications Commission;

3. The suggested Federal guidelines are:

a. A cap on non-traffic sensitive (NTS) costs which may be levied on interstate interexchange services for access to the local exchange;

b. Charges shall not discriminate against interstate, interexchange service;

c. Charges shall not discriminate between different interexchange carriers utilizing the same services or facilities;

d. Charges shall not encourage uneconomic bypass; and

e. Charges shall promote universal service;

4. An aggrieved party may petition the Joint Board for review of a State commission action for failure to follow the above guidelines.

Adopted July 25, 1984
Sponsored by the NARUC Committee on Communications

Mr. WYDEN. Our next speaker is Merlin L. Dennis, president of the National Telephone Cooperative Association, and president, Rural Telephone Service Company, Inc., of Lenora, KS.

TESTIMONY OF MERLIN L. DENNIS, PRESIDENT, RURAL TELEPHONE SERVICE CO., INC. AND PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

Mr. DENNIS. Good afternoon, members of the committee. My name is Merlin L. Dennis and I am president of Rural Telephone Service Co., Inc. Today I am speaking as president of the National Telephone Cooperative Association.

NTCA is a national trade association comprised of approximately 450 locally owned and operated small telephone systems providing service in rural areas in 42 States. Most of these systems have obtained capital financing under the loan programs of the Rural Electrification Administration.

Rural Telephone serves 6,586 subscribers along 3,578 route miles of cable, which is an average of 1.8 subscribers per mile. Our service areas covers 26 exchanges located in portions of 15 counties in northwest Kansas. Our plant investment per subscriber is $2,320.62. An average monthly phone bill is $50.11, with $10.62 attributable to local service and $38.89 attributable to toll. Approximately 75 percent of toll usage is intrastate.

I appreciate the opportunity to appear before the committee today. I commend this task force for your efforts to preserve universal telephone service. From my own experience on the board of a rural telephone company and from the experiences of our membership, I can tell you that Congress must pay considerable attention to this speedily changing telephone industry.

We are currently in a transition period, one which is difficult and painful, yet one which we hope will ultimately serve us well. However, during this period, we are facing uncertainty about revenues and complicated procedures for obtaining those revenues.

Prior to divestiture, AT&T and the local Bell systems pooled their respective interstate and intrastate long-distance revenues. This was a fairly streamlined operation. Divestiture changed all this. Presently, the National Exchange Carriers Association administers four pools for interstate access charges. Each State decides how it will administer intrastate long-distance revenues. In Kansas, intrastate access revenue pools are administered by Southwest Bell, under an agreement with a committee of local exchange companies. This new system is more complicated, time consuming, and inequitably burdensome on small telcos. More worrisome, however, is the uncertainty about pooling results. For it is quite possible to be owed money from the pool 1 month and then owe money to the pool the next. An erratic situation would make long- or short-term planning for a system's future impossible.

Another serious problem with the new system of revenue allocation is that the data which local exchanges must supply to NECA and which determines our portion of long-distance revenues is based on variables which may be unknown or subject to change. Some examples are the amount of toll anticipated, expenses, and upgrading needs. The FCC is constantly announcing changes in revenue requirements based on new data it receives. Obviously, it is near impossible to provide accurate data and make meaningful projections under the present conditions.

The additional paperwork is especially burdensome for small telephone systems which must supply streams of data in order to receive their portion of revenues under the new industry structure. The demands in time and expense on our limited resources has been enormous.

Rural Telephone, for example, is experiencing a twofold increase in paperwork. This is a notable drain of man hours which could be better spent in the business of servicing our subscribers. The huge amount of paperwork is necessary to accommodate the new system of allocating revenues, which was devised in accord with the divestiture decision.

In short, we may not know the extent of the impact of divestiture. However, for the present, we are greatly concerned that divestiture, compounded by deregulation and the access charge environment, may threaten the very existence of small rural telephone systems in this country.

In December 1982, the FCC announced the first of several opinions in its access charge proceeding. The decision called for sweeping changes in the method of recovering local exchange costs associated with long-distance calling. Via a system of flat rate monthly access charges, these costs would be borne by local subscribers, whether or not they used the long-distance network.

As the National Federation of Independent Businesses has pointed out, the $6 a month per line business access charges is an acute problem for small businesses. Small business customers who do not make many long-distance calls are feeling particularly burdened by the access charge. While it is still too early to measure the impact of the multiline business access charges, we in rural America know that it can contribute to a declining local economy.

NTCA supports substantial modification of the FCC's access charge plan as an important element of a revised plan. We also support the continuation of an interstate carrier's charge which is fair and reasonable, since the interstate carriers benefit from the local loop and it has been configured to their needs.

Eleven billion dollars of allocated nontraffic sensitive costs are at stake. We believe it is unfair to ask the end user to bear the entire burden of the costs of utilizing the local exchange when the interexchange carriers must of necessity use local exchange facilities. NTCA supports a plan under which all users of the local plant, including the interexchange carrier, contribute to local plant costs.

The FCC recognized that under the access charge plan, telephone service in high cost rural areas would be jeopardized, absent additional support. It therefore incorporated a universal service fund in its access charge decision to help maintain high cost rural systems. However, the commission proposal failed to provide adequate assistance for rural high cost companies. The FCC is currently reviewing all aspects of its access charge decision, including the issue of high cost support. NTCA supported the levels of high cost assistance for small rural telephone systems in legislation passed by the House in November 1983, H.R. 4102, and the Senate legislation which is still pending, S. 1660. Both levels exceeded those in the FCC plan.

NTCA supports recovery of 100 percent of a company's fixed costs which exceed 110 percent of the national average. If the FCC improves its currently proposed level of assistance to high cost systems, then the impact of deregulation should not be as severe in rural areas. Because the telephone industry is composed of companies which are mostly very large or small, support can be available to high cost systems with 150,000 access lines at very little increase over the 50,000 lines as proposed by the FCC.

It is ironic that the current high level of telephone service in rural areas was achieved in no small part through the efforts of small telephone systems like Rural. Yet, today industrywide changes may spell our demise and reverse the excellent progress we have made toward ensuring universal telephone service. Adequate assistance to small rural high cost systems will stave off the threat to universal service.

An important component of high cost recovery is the calculation of a company's qualifying costs. The FCC has adopted a method of calculating costs which would unfairly deny reimbursement to high cost REA telephone borrowers. The new method utilizes an industrywide average cost of equity but an individual company's cost of debt and debt equity ratio. This proposal, which departs from the Commission's traditional use of a uniform cost of capital, will deny assistance to REA borrower systems which are high cost companies and assign to larger companies in high growth areas a disproportionate amount of high cost support.

Applying the FCC's formula using characteristic debt and equity percentages will instantly show the inequities of applying individual cost of debt and uniform cost equity.

Clearly, when the equity component is high the weighted cost increases. When the debt component is low, weighted cost decreases. The distortion in the comparison of costs is even greater when applied to companies in high growth areas with 100 percent equity capital. Highly leveraged systems such as REA borrowers pose higher risks and therefore have greater equity costs then the uniform cost of equity utilized in the proposed formula. For this reason, their costs will always appear low under the current formula.

Yet REA borrowers serve low density, high cost areas. The FCC's formula assumes that because REA borrowers are able to obtain low interest loans they have an advantage when compared to non-REA borrower systems. However, penalizing REA borrowers through the FCC's calculation method eliminates much of the benefit they might derive from the REA program. REA low-interest loans, which were designed to reduce subscribers' bills, are instead preventing high cost rural companies from receiving the level of assistance they require to survive in this deregulated environment.

We are concerned that the FCC may take similar action on the cost of capital formula in it recently announced rate of return proceeding.

In sum, the formula proposed by the Commission mismatches important factors and thereby misrepresents telephone companies relative costs. This mismatch prevents highly leveraged REA borrowers in high cost areas from receiving any or an adequate amount of assistance. We believe the traditional nationwide average cost of capital is more equitable and should be used.

In addition the consequences of access charges and divestiture I have already mentioned, other areas of ongoing deregulation are having an impact on telephone rates of rural subscribers. Further, rural telephone systems traditional source of affordable financing—REA—is under attack.

One deregulatory action which would have a crucial impact on rural America is the deaveraging of interstate toll rates. Toll rate averaging is a pricing concept whereby a customer pays equally for toll calls of equal distance, duration, and time of day. Currently low-density, toll routes, such as those in rural areas, benefit from toll rate averaging. Unchecked, the deaveraging of toll rates would have a disastrous impact on rural America. Rural rates would soar and rural residents, for whom many essential service contacts are a toll call away, would be denied these essential services. As I stated earlier, my company's subscribers' long-distance calls already average $40 per month. Thus, it is obvious why we are deeply concerned about the possibility of deaveraged interstate toll rates.

In these uncertain times, small rural telephone systems need REA support more than ever. Yet, that support is in serious jeopardy. NTCA members are making every effort to adapt to new competitive environment. Many are diversifying their operations in order to replace the loss of traditional toll revenues and ensure a sound financial base. REA policies, for example, those respecting lien accommodations and the use of general funds tremendously hinder these efforts. Moreover, the current administration has consistently proposed drastic cuts in annual REA loan levels. It is opposed to pending legislation which would make the REA Telephone and Electric Revolving Fund self-sustaining. The threat to REA financing and REA policies which impede telephone borrowers' efforts to secure non-Government financing, places additional pressure on rural telephone systems.

Clearly, the small telephone system is facing a multitude of challenges. The future of affordable telephone service in rural areas is at stake. We need strong congressional support for rural telephones if we are to see our way through this period of change and continue to provide modern and affordable telephone service to rural America.

Once again, I do thank you for the opportunity of appearing before your committee.

[Mr. Dennis' prepared statement follows:]

PREPARED STATEMENT OF MERLIN L. DENNIS, PRESIDENT, RURAL TELEPHONE SERVICE CO., INC., AND PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

I. INTRODUCTION

Good afternoon, Mr. Chairman and Members of the Committee. My name is Merlin L. Dennis and I am President of Rural Telephone Service Company, Inc. Today I am speaking as President of the National Telephone Cooperative Association.

NTCA is a national trade association comprised of approximately 450 locally owned and operated small telephone systems providing service in rural areas in 42 states. Most of these systems have obtained capital financing under the loan programs of the Rural Electrification Administration (REA).

Rural Telephone serves 6,586 subscribers along 3,578 route miles of cable, which is an average of 1.8 subscribers per mile. Our service areas covers 26 exchanges located in portions of 15 counties in Northwest Kansas. Our plant investment per subscriber is $2,320.62. An average monthly phone bill is $50.11, with $10.62 attributable to local use and $39.89 attributable to toll. Approximately 75% of toll usage is intrastate.

I appreciate the opportunity to appear before the Committee today. I commend this Task Force for your efforts to preserve universal telephone service. From my own experience on the Board of a rural telephone company and from the experiences of our membership, I can tell you that Congress must pay considerable attention to this speedily changing telephone industry.

II. THE IMPACT OF DIVESTITURE

We are currently in a transition period, one which is difficult and painful, yet one which we hope will ultimately serve us well. However during this period, we are facing uncertainty about revenues and complicated procedures for obtaining those revenues.

Prior to divestiture, AT&T and the local Bell systems pooled their respective interstate and intrastate long-distance revenues. We then contracted with them for our share of the revenues. This was a fairly streamlined operation. Divestiture changed all this. Presently, the National Exchange Carriers Association (NECA) administers four pools for interstate access charges. Each state decides how it will administer intrastate long distance revenues. In Kansas, intrastate access revenue pools are administered by Southwest Bell, under an agreement with a committee of local exchange companies. This new system is more complicated, time consuming and inequitably burdensome on small telcos. More worrisome, however, is the uncertainty about pooling results. For it is quite possible to be owed money from the pool one month and then owe money to pool the next. An erratic situation would make long or short term planning for a system's future impossible.

Another serious problem with the new system of revenue allocation is that the data which local exchanges must supply to NECA and which determines our portion of long distance revenues is based on variables which may be unknown or subject to change. Some examples are: the amount of toll anticipated, expenses, and upgrading needs. The FCC is constantly announcing changes in revenue requirements based on new data it receives. Obviously, it is near impossible to provide accurate data and make meaningful projections under the present conditions.

The additional paperwork is especially burdensome for small telephone systems which must supply streams of data in order to receive their portion of revenues under the new industry structure. The demands in time and expense on our limited resources has been enormous.

Rural Telephone, for example, is experiencing a two-fold increase in paperwork. This is a notable drain of man-hours which could be better spent in the business of serving our subscribers. The huge amount of paperwork is necessary to accommodate the new system of allocating revenues, which was devised in accord with the divestiture decision.

In short, we may not know the extent of the impact of divestiture. However, for the present, we are greatly concerned that divestiture, compounded by deregulation and the access charge environment may threaten the very existence of small, rural telephone systems in this country.

III. HIGH COST ASSISTANCE

The Access Charge Decision

In December, 1982, the FCC announced the first of several opinions in its Access Charge proceeding (CC Docket 78-72). The decision called for sweeping changes in the method of recovering local exchange costs associated with long distance calling. Via a system of flat rate monthly access charges, these costs would now be borne by local subscribers, whether or not they used the long-distance network. The FCC responded to imminent Congressional action by delaying access charges for residential and single line business users until June, 1985. It allowed access charges for multiline business to go into effect May 25, 1984.

As the National Federation of Independent Businesses (NFIB) has pointed out, the $6/month per line business access charges is an acute problem for small businesses. Small business customers who do not make many long distance calls are feeling particularly burdened by the access charge. While it is still too early to measure the impact of the multiline business access charges, we in rural America know that it can contribute to a declining local economy.

NTCA supports substantial modification of the FCC's access charge plan as an important element of a revised plan. We also support the continuation of an interstate carrier's charge which is fair and reasonable, since the interstate carriers benefit from the local loop and it has been configured to their needs. Eleven billion dollars of allocated non-traffic sensitive costs are at stake. We believe it is unfair to ask the end user to bear the entire burden of the costs of utilizing the local exchange when the interexchange carriers, must, of necessity, use local exchange facilities. NTCA supports a plan under which all users of the local plant, including the interexchange carrier, contribute to local plant costs.

Targeted Assistance

The FCC recognized that under its Access Charge plan, telephone service in high cost rural areas would be jeopardized, absent additional support. It therefore incorporated a Universal Service Fund into its Access Charge Decision to help maintain high cost, rural systems. However, the Commission proposal failed to provide adequate assistance for rural, high cost companies. The FCC is currently reviewing all aspects of its Access Charge Decision, including the issue of high cost support. NTCA supported the levels of high cost assistance for small rural telephone systems in legislation passed by the House in November 1983, HR 4102, and in Senate legislation which is still pending, S. 1660. Both levels exceeded those in the FCC plan.

NTCA supports recovery of 100% of a company's fixed costs which exceed 110% of the national average. If the FCC, improves its currently proposed level of assistance to high cost systems, then the inpact of deregulation should not be as severe in rural areas. Because the telephone industry is composed of companies which are mostly very large or small, support can be available to high cost systems with 150,000 access lines at very little increase over the 50,000 lines as proposed by the FCC.

It is ironic that the current high level of telephone service in rural areas was achieved in no small part through the efforts of small telephone systems like Rural; yet, today industry-wide changes may spell our demise and reverse the excellent progress we have made toward ensuring universal telephone service. Adequate assistance to small rural, high cost systems will stave off the threat to universal service.

Calculation of Cost

An important component of high cost recovery is the calculation of a company's qualifying costs. The FCC has adopted a method of calculating costs which would unfairly deny reimbursement to high cost REA telephone borrowers. The new method utilizes an industry-wide average cost of equity but an individual company's cost of debt and debt/equity ratio. This proposal, which departs from the Commission's traditional use of a uniform cost of capital, will deny assistance to REA borrower systems which are high cost companies and assign to larger companies in high growth areas a disproportionate amount of high cost support.

Applying the FCC's formula using characteristic debt and equity percentages will instantly show the inequities of applying individual cost of debt and uniform cost of equity. A larger company, which can attract a greater percentage of equity financing, would compute its cost of capital as follows:

Debt	x	cost of debt	=	weighted debt
50%		8.1%		4.05
Equity	x	cost of equity		+
50%		17.4*		8.7
				12.75% COST OF CAPITAL

Whereas, an REA borrower which is largely debt-financed with REA lower interest loans would be classified as follows:

	Debt	x	cost of debt	=	weighted debt
	80%		5.0%		4.0%
+	Equity	x	cost of equity	=	+
	20%		17.4%*		3.5%
					7.5% COST OF CAPITAL

Clearly, when the equity component is high the weighted cost increases. When the debt component is low, weighted cost decreases. The distortion in the comparison of costs is even greater when applied to companies in high growth areas with 100% equity capital. Highly leveraged systems such as REA borrowers pose higher risks and therefore have greater equity costs than the uniform cost of equity utilized in the proposed formula. For this reason their costs will always appear low under the current formula. Yet REA borrowers serve low density, high cost areas. The FCC's formula assumes that because REA borrowers are able to obtain low interest loans they have an advantage when compared to non-REA borrower systems. However, penalizing REA borrowers through the FCC's calculation method eliminates much of the benefit they might derive from the REA program. REA low interest loans, which were designed to reduce subscribers bills are instead preventing high cost rural companies from receiving the level of assistance they require to survive in this deregulated environment.

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*This is AT&T's cost of equity, 86 FCC 221 (1981).

We are concerned that the FCC may take similar action on the cost of capital formula in its recently announced rate of return proceeding (CC Docket 84-800).

In sum, the formula proposed by the Commission mismatches important factors and thereby misrepresents telephone companies relative costs. This mismatch prevents highly leveraged REA borrowers in high cost areas from receiving any or an adequate amount of assistance. We believe the traditional nationwide average cost of capital is more equitable and should be used.

IV. OTHER SMALL TELCO PROBLEMS

In addition to the consequences of access charges and divestiture I have already mentioned, other areas of on-going deregulation are having a impact on telephone rates of rural subscribers. Further, rural telephone systems traditional source of affordable financing - REA - is under attack.

Toll Rate Averaging

One deregulatory action which whould have a crucial impact on rural America is the deaveraging of interstate toll rates. Toll rate averaging is a pricing concept whereby a customer pays equally for toll calls of equal distance, duration and time of day. Currently low-density toll routes, such as those in rural areas, benefit from toll rate averaging. Unchecked, the deaveraging of toll rates would have a disastrous impact on rural America. Rural rates would soar and rural residents, for whom many essential service contacts are a toll call away, would be denied these essential services. As I stated earlier, my company's subscribers' long-distance calls already average $40 per month. Thus, it is obvious why we are deeply concerned about the possibility of deaveraged interstate toll rates.

REA Financing

In these uncertain times, small rural telephone systems need REA support more than ever. Yet, that support is in serious jeopardy. NTCA members are making every effort to adapt to new competitive environment. Many are diversifying their operations in order to replace the loss of traditional toll revenues and ensure a sound financial base. REA policies, for example, those respecting lien accommodations and the use of general funds tremendously hinder these efforts. Moreover, the current Administration has consistently proposed drastic cuts in annual REA loan levels. It is opposed to pending legislation which would make the REA Telephone and Electric Revolving Fund self-sustaining. The threat to REA financing and REA policies which impede telephone borrowers' efforts to secure non-government financing places additional pressure on rural telephone systems.

V. CONCLUSION

Clearly, the small telephone system is facing a multitude of challenges. The future of affordable telephone service in rural areas is at stake. We need strong Congressional support for rural telephony if we are to see our way through this period of change and continue to provide modern and affordable telephone service to rural America.

Mr. **Wyden**. Ms. Louise Brown, president of the Loretto Telephone Company, Inc., Loretto, TN, for Organization for the Protection and Advancement of Small Telephone Companies.

As you know, we have got a number of residents of Tennessee in the U.S. Congress, particularly Jim Cooper and Albert Gore have been great advocates of the special needs of small telephone companies and rural residents generally, so I think you are very fortunate to have them in the Congress. I know Al would have liked to be here had he been able, and I am glad we have been able to have Mr. Cooper here for your testimony.

TESTIMONY OF LOUISE BROWN, PRESIDENT, LORETTO TELEPHONE CO., INC., REPRESENTING THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

Ms. **Brown**. Thank you.

Al did come down and say hello. I realized he was very busy.

I am Louise Brown and I am owner and president of the Loretto Telephone Co. I am in the very south central part of Tennessee and I am laying on the Alabama border. I serve about 4,100 customers in four exchanges. I serve by far the greater part of Lawrence County, the rural area.

We have EAS into all of the county except one little city in the top corner and we are talking about bypass, and would you believe I am already feeling bypass. A large furniture company is affected in Florence, AL. That is our primary shopping area, quad-city area of northern Alabama, and my toll is very small. I have the unique distinction of having the lowest average of toll use of any company in the State, but they can call into that area for all their needs. Consequently, I have one of the higher local rates of some small companies.

Now I am representing PASCO. There is such a wide variety of users, company owners in PASCO with different sets of problems, and of course we are independent and most of us are pretty independent in our thinking. But the years that this deregulation was coming about, and the FCC were visiting PASCO national meetings, we went over and over a lot of of these things that we anticipated and I saw PASCO members at microphones literally with tears in their eyes asking what is this going to do to my people?

I think those of us—I was born and raised there, everybody knows you on a first name basis—we were not only concerned with our survival, and we were concerned about that, because after all, I don't have time to make another life for myself, I have 3 of my children working in the company, I have 23 employees, and I don't want to see their futures jeopardized, and I feel like that everyone concerned is sincerely devoted to finding the right answers for all this divestiture.

The very fact that you are having this hearing shows me you are concerned and I know from talking to Jim and Al that they are very concerned. It surprises me that they know what they do, because quite frankly, we wonder what we know, it changes so fast on a day-to-day basis.

I have a recurring nightmare that I am driving my car down a highway and the lights are off and I am down under the wheel and I can't see anything, and I am speeding down the highway. I wondered if this is what I have been dreaming in the telephone industry because for the first time since I have been working in the telephone business—I started out when I was 10 years old. I am having to make decisions and work out things I don't really feel fully competent to understand what those things are.

Now, the Bell companies always helped us. They were very supportive and helpful, but you see they are just in there with us now. They were working out requirements and economics, contracts, and so forth, and the small company couldn't have the staff, the qualified people to work out a lot of those things for themselves. I am seeing this happen, so many people are saying "I am discouraged, I don't know if I can face it and go on."

The question of equal access as I said, you might think that is really not relevant in a company the size of mine, but my largest industry is in Lawrenceburg, which is the Bell exchange and they have a site in Ethridge. Well, they are channeling their long distance—EAS—to Lawrenceburg and they send their long distance out, so I am losing that revenue. The furniture company, as I said, is affixed to Florence and hitting Americall. They can afford to buy some cheaper service but my people out there can't.

When they ask me about MCI and all these things they hear about on television to get cheaper rates, I have to say, well, I can't provide that. Most people in the rural area only have AT&T available and really I think that is going to be about all that is available, unless they do bypass me and shoot to Florence and pick up Americall.

The second being, is legislation desirable at this point?

Maybe not any legislative measures, but I certainly think for the Congress to keep a keen eye on it, as they are doing, is to be highly recommended.

I feel like the FCC is really concerned. I think they are addressing the issues, and they have good will toward the small company. I know that the carriers have to be treated fairly, and they have to survive, but I hope we don't see the burden of this access charge placed back just on the people.

I have got a lot of poor people in my county, and not as many as in a lot of counties. They are not just numbers. I know they are on a limited income, infirm, crippled, and they are paying more than they are able to pay now.

I think the bypassers should help make up some of this lost revenue. I think the carriers should bear the biggest part of it.

It should not be passed on to the poor, because they are helpless. When we put the $4 access charge on our multiline businesses in May, I lost one phone. Ironically, it was the senior citizens phone, that the city didn't want to pay anymore.

I didn't get any protests from my people. They have known me all my life, and if they have a problem, they call and they usually want to talk to Louise, and that is fine.

That is the way I like it, but I think they are relying me to represent their interests. I certainly want to do that, and I have for several years, I have had a Citizens Advisory Board, and we meet regularly with them.

They know it is a dilemma for us, and we are really trying to help them solve it. I do think that the averaging of toll rates, unless it is watched carefully, will again penalize the highcost rural areas.

All of these measures are going to affect those rural users unless we all make a conscientious and concerted effort to see that it does not.

Mr. **Wyden**. Any further comment?

Ms. **Brown**. We have bought a computer, IBM Computer 36, to help us just render the bills and do our billing. One thing we need to talk about is the depreciation rate. Now, that is a real turn, and I have been very concerned with that a long time.

It is unreal. I have never kept an office, none of them, that fully depreciated out on the books before we had to make a change. If we had to provide cellular radio, we would be incapable of doing it, without replacing our offices.

I am REA company. We just don't have the income and the money to make all these swift changes to update, so I think that revenues, subsidies, something is going to have to be found, but I am very concerned that they not be laid on the people that aren't able to pay it.

Mr. **Wyden**. I thank you for an excellent statement.

[Ms. Brown's prepared statement follows:]

PREPARED STATEMENT OF LOUISE BROWN, PRESIDENT, LORETTO TELEPHONE CO., INC., REPRESENTING THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

My name is Louise Brown. I own and operate Loretto Telephone Company which is located in Loretto, Tennessee. We serve approximately 1400 customers, through four exchanges. Loretto Telephone Company has twenty-three full-time employees.

I am an active member of OPASTCO and serve as Chairman of OPASTCO's Regulatory Committee. In many respects, our company is typical of other OPASTCO companies. OPASTCO member companies are locally owned and operated local exchange companies serving 50,000 access lines. No OPASTCO company has more than 1,500 employees. In fact the average number has approximately ten employees.

Although my testimony may not completely represent the beliefs of every OPASTCO member and may refer largely to my own opinion, I am knowledgeable about OPASTCO's positions on the major issues. I believe that my views are in general agreement with many other members of our organization.

I am aware of the three areas of questions in which the Committee is interested. I would like to address those areas and offer my comments concerning them.

DRAFT TESTIMONY - HOUSE COMMITTEE ON SMALL BUSINESS

I. The Effect of Divestiture on Small Telephone Companies.

While many of the recent changes in the telecommunications industry frequently are attributed to the divestiture of the Bell System, it should be understood that the primary effect of the Modified Final Judgement (MFJ) has been to accelerate a number of trends which were already well under way. It should be remembered that the Hush-a-phone and Carterfone cases--which allowed the attachment of competitively provided equipment to the telephone network as long as it met technical standards--were decided over twenty years ago. Interstate competition has developed since MCI's petition before the FCC in 1963 proposing a microwave link between St. Louis and Chicago.

Viewed in a broader sense, the change or "revolution" occurring within the telephone industry is a series of interrelated responses to rapid technological development. This is not to suggest that there have not been significant effects which are directly related to the breakup of the Bell System; however, it is important to recognize this broader perspective of our industry. Many of the more important issues for small and large telephone companies alike, may be tangentially or indirectly responsive to the divestiture of AT&T, yet they warrant discussion before this Committee.

The predominant effect of the divestiture itself on telephone companies in general, and small companies in particular, is the demise of the pre-divestiture Bell - Independent relationships. In the pre-divestiture environment, all investment and network planning was performed by the Bell System for the entire industry. In today's environment these functions must be performed by each individual company. This fact results in the creation of financial pressures encouraging the formation of consortiums, and in a number of instances, mergers and acquisitions. In general, small telephone companies find themselves in entirely new relationships with new entities which demand much more astute business decisions.

Another direct effect of the divestiture on all local exchange carriers results from the MFJ's equal access requirement. While it is true that the MFJ mandates only that the BOCs provide equal access in accordance with a specified schedule, in a real sense, all exchange carriers must, at least, consider the practicalities of offering equal access to competing interexchange carriers in order to attract alternative long distance carriers to their territory.

For most, if not all, small rural telephone companies, AT&T may be the sole provider of basic, domestic interstate service at the present time. For a number of reasons, such as low population densities and the remoteness of these areas, competition is not yet attracted to these exchanges. Another reason discouraging the entry of interexchange carriers to these areas directly is the current unavailability of equal access. In a number of instances, such as independent exchanges connected to larger Bell exchanges via

EAS trunking, a substantial amount of revenues are lost because interexchange carriers are able to access the independent exchanges' customers from points of presence located in neighboring exchange territory.

Upgrading facilities to enable the offering of equal access connections is expensive and requires a certain amount of planning. It is a gamble to invest in equal access facilities in the hope of attracting competing interexchange carriers. At the same time, there is virtually no hope of attracting such competitors without the ability to offer equal access.

The end of the pre-divestiture relationships and the equal access questions are the two issues for small companies most directly related to the divestiture. Other less directly related issues, though equally important for the survival of small companies, are discussed in the third part of this testimony.

II. Legislation to Benefit High Cost Areas.

In the August 14, 1984 letter of this Committee inviting participation in these hearings, the Committee requested comment on how legislation may be written to keep residential and business telephone rates at a reasonable level in high cost areas while still providing incentives to keep costs down. It is my opinion, and OPASTCO's position, that any legislative activity concerning the telephone industry should be used only as a last resort and only for specific and limited purposes. This does not mean that Congressional committees through their oversight responsibilities should not closely monitor the industry and regulation thereof.

While there appears to be an increasing number of issues arising with potentially adverse affects, particularly for the smaller companies, we believe that the FCC is attempting to address these issues. In regard to the Commission's ongoing efforts to find an equitable solution to the transition to access charges, the Commission has solicited our opinions and comments, and we believe is giving fair consideration to our positions in formulating its rules and policies. We also find a good faith effort on the part of the Commission to monitor the application of its policies and rules.

During the early part of this year, the Commission reopened many of the issues important to small high cost companies in its Access Charge docket and in the Joint Board proceeding. Additionally, the Commission has solicited studies concerning bypass issues. One of the specific questions raised in the FCC's February 15, 1984 release in Docket 78-72/80-286 addressed the same issues presented by this Committee: i.e., what are more effective means of meeting the needs of small telephone companies in higher cost areas.

The Commission and the Federal State Joint Board are expected to release their decision on the reconsideration of these issues later this year. Accordingly, we feel that significant progress is being made with the Commission concerning high cost issues and the general well-being of small telephone companies. Therefore, now is not the appropriate time for major congressional intervention.

Therefore any congressional action would be premature and might be tailored to deal with situations which may never arise. We believe that the appropriate congressional role would be to monitor the FCC's decisions through oversight and only to step in with legislation if the Commission's actions are insufficient to protect small telephone companies and their customers.

III. Special Problems of Small Companies.

As was stated earlier in this testimony, while it is not felt that legislation would be proper at this time, we are grateful that this Committee has expressed interest in the problems of small telephone companies. While I do not encourage legislation, I applaud this Committee for giving me the opportunity to comment on certain issues.

Perhaps the greatest complaint heard from small telephone companies concerns the ever increasing paperwork burden. At present, the majority of the paperwork concerns the access tariffs generally, and the National Exchange Carrier Association (NECA) specifically. The NECA was formed by the Commission to administer access tariffs and the Universal Service Fund. NECA data requests have been frequent and complex as are the reporting requirements to the NECA. It is an additional load of paperwork to implement the tariffs; i.e., billing and collecting from both customers and interexchange carriers. Simply reading and understanding these tariffs is an additional challenge. The NECA tariffs, AT&T tariffs, technical manuals, and procedural manuals total several thousands of pages. Major revisions to these volumes are released almost weekly. More and more, the level of interstate related paperwork is being duplicated at the state level.

The majority of small telephone companies are family owned and operated and have fewer than ten employees. For many of these companies compliance is already impossible due to the sheer volume of paper involved.

There is every indication that this problem will only become worse. Planned revisions to the Uniform System of Accounts and the proposed new methodologies and formulae for determining interstate rates of return threaten new complexities. The continued growth of intrastate and intraLATA competition will demand greater tariff related compliance and expertise. While the NECA tariff is easily the most voluminous and complex today, there is some consolation in the fact that this year almost all exchange carriers participate in that tariff and its pools.

The FCC has refused to consider the effects of its decisions on the paperwork burden created for small companies. Major decisions, such as in dockets 78-72 and 80-286 contain no Regulatory Flexibility Analysis. The Commission's reasoning is that small telephone companies do not fit within the definition of a "small business" as it appears in the Small Business Act as referenced by the Regulatory Flexibility Act. The definition states: "a small-business concern. . .shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation. 15 USC 632 (a). The Commission contends that small telephone companies are dominant in their field of operation and, thus, do not fit within the definition. It therefore appears that current law does not offer the answer to this problem.

Another problem, relatively unrelated to the divestiture, concerns depreciation schedules for telephone companies. As the competitive nature of the telecommunications environment increases, the importance of effective and efficient depreciation schedules increases. As competition increases and cost based pricing becomes the norm, the smaller companies especially must have a high degree of economic agility to quickly respond and adjust to change. The greatest impediment to such financial agility is the structure of most depreciation schedules.

For certain categories of plant investment, the book lives are much longer than the average life, and the reserves significantly smaller. For example, electronic central office equipment generally has a book depreciation life of approximately twenty-five years, with reserves, in many instances, in the neighborhood of only nine percent. Outside plant accounts have composit book depreciation life of close to thirty-five years; and underground plant is depreciated over periods in the area of sixty-five years. Although more rapid depreciation may lead to rate increases in the short term, failure to introduce new technology will threaten the ultimate financial viability of these companies in the long run.

In addition to these issues, there are several others that will become important to small companies over the coming years. The remaining comments of this testimony will briefly discuss a few of these.

The first such issue is the deaveraging of toll rates. At the present time, toll rates are established as a function of distance. In reality, toll rates do not necessarily reflect the true costs of providing communications links between two given points. It has been established public policy that averaged toll rates are in the best public interest in that they permit the widest use of the total network. As the degree of competition increases for interexchange traffic, the interest in toll rate deaverging is likely to increase. The result may be increases in the price of toll calls to remote, low density, high cost areas. If steps toward the deaveraging of toll rates are taken before true competition exists in high cost rural areas, such action will likely end any possibility of competition for such areas.

Another issue resulting from increased competition accelerated by the divestiture, concerns rates of return for carriers. Last month, the FCC issued a Notice of Proposed

Rulemaking in CC Docket No. 84-800 in consideration of substantially revising the current system of rate of return regulation. While the plan contemplated by the Commission may appear more realistic in a cost-based environment, the effect may be detrimental to the majority of small telephone companies.

Perhaps none of these issues alone threaten widespread financial failure of small companies; however, in combination they will likely create an environment in which small companies must use all of their limited resources to keep pace with a rapidly changing technological and regulatory environment. Small companies have the least defenses and in many aspects, the least access to needed expertise.

In order for rural residents to continue to have reasonably priced modern and efficient telecommunications services and equipment, small companies must find new ways to stabilize their revenue streams; extensive regulatory burdens must be removed and direct assistance must be provided when necessary. If rural residents are to participate in the information age, the companies that serve them must remain financially healthy.

Thank you for giving me this opportunity to share my views with the Committee. Again, I commend this committee for its interest in small telephone companies and for its concern. I will be pleased to try to answer any questions you might have concerning Loretto Telephone Company or OPASTCO.

Mr. Wyden. Mr. Keen?

TESTIMONY OF JACK C. KEEN, PRESIDENT, WESTERN NEW MEXICO TELEPHONE CO., ON BEHALF OF THE NATIONAL RURAL TELECOM ASSOCIATION

Mr. Keen. Thank you, Mr. Chairman, and members of the committee. I wish you hadn't put me behind Louise. She is a hard act to follow.

Mr. Wyden. Kind of like *Tugboat Annie* following the *Queen Mary*.

Mr. Keen. My name is Jack Keen, president of the Western New Mexico Telephone Co. in Silver City, NM. We serve about 3,300 customers over 9 rural exchanges. It is in southwestern New Mexico.

I am here also as president of the National Rural Telecom Association, which is our successor organization. We have been calling ourselves for 20-some-odd years, the National REA Telephone Association.

We represent about 350 to 400 commercial telephone companies that borrow money under the REA Program.

We are also a member of the Rural Telephone Coalition, and as small companies, we can speak for our customers. We drink coffee with them every day. They are not just a bunch of statistics to us nor are they people that can be run off the network indiscriminately with high rates. They are more than a statistic.

We are also part of a task force that the companies in the Rural Coalition and the USTA has formed, and we are examining the data that is available now from NECA, and we are seeking a common solution to these two problems.

I have written testimony, and I would request that it be included in the record, Mr. Chairman.

Mr. Wyden. Without objection, it will.

Mr. Keen. I also have with me today Margot Humphrey of Koteen & Naftalin here in Washington, and Mr. John F. O'Neal, who is our Association's General Counsel.

Our Congress has about 3,300 customers. We serve an area that is 15,000 square miles. We have three national forests in that area; 15,000 square miles doesn't sound like very much, but it compares to the size of the State of Maryland and Connecticut combined. I say that so some of the people here in the East might more fully understand what we are talking about.

But the problem is that Maryland and Connecticut have 4,764 times as many telephones as we have, so it does create a problem.

My company is a small business. When we got the letter from the committee referring to the fact that a small business is one with 1,500 employees or less, if we went that route, we would have 1 employee for every 2 customers, so we do have less than 35 employees.

Our density is 1.24 subscribers per route mile, and the cost of our plant is about six times the national average. One reason for that is, besides the rough terrain, we have served the entire area as most REA borrowers have.

We have some people that are 15 miles to their nearest neighbor, and we have some lines that have gone 30 miles with only one customer. They do have straight lines. It is all digital, and it was made possible by two things: First, the REA Program and second, the toll settlements procedures.

Without the cost settlements that we have had in effect and working properly for 40-some-odd years, without them, we are dead in the water.

The FCC and the Justice Department combined, they have come in and changed the rules all of a sudden, you know, we started all these things in good faith, on the basis that they would continue, and suddenly, we get the rug pulled out from under us, and now everything is different.

It really is a problem to try to make any long-range plans. Long-range plans today in the telephone business are next Thursday. That is about as far as we can go, and maybe that is too long.

One of the real problems with high cost is, or what has caused it is our area coverage. If we went down the paved roads and just served those that were easy to get to, we could cut our costs down, but when you attempt to serve everybody that is eligible for phone service, and of course, that is one of the things that our contract or mortgage with REA requires, and we are glad to do it, that does run the costs up.

We have recently bought some property from one of the Bell companies, and in every case, we have added at least 40 percent customers, which tells you something right off the top. They couldn't serve everybody with conventional money.

We have one in progress right now, where they have 175 stations. We are taking it over and there is going to be over 600 customers in that one 60-mile area.

This is to give you an idea of what are we talking about when we say universal service. There are a lot of companies out there that are not providing universal service today.

I think one of our biggest problems on the whole divestiture problem, and the FCC, is the manner in which it has been accomplished. Louise spoke of having this nightmare of being in a car. Mine is in a train.

I guess it is about the same thing, but anyway, there is a combination of things that has hit us here all at the same time. The issues are coming faster than the answers, that is for sure.

Just to name a few, the access charges from FCC, the cost of capital issue, the toll and the accounting changes that are going to create a nightmare for a company like hers or mine or any of the small companies, and all of those things demand raising the price

That is the bottom line, it raises the cost of the service to everybody, and it is ridiculous to have to do all these things at once, and equal access is yet another issue.

Bypass is a problem, but the biggest bypassers today are the State and Federal governments which I can prove.

It is happening right now, and in several of the States, if I am not mistaken, probably all of them, but I know it is happening in New Mexico where I live. You wonder if it is an appropriate way for the Government to spend taxpayers' money, you know, to bypass our existing brand new, up-to-date system that can provide them anything in the world they want, and they will admit that they are getting great service.

They admit that we give them everything they want, but they want to do this, because their superiors are telling them to, and that is a good reason for them to do it, somebody telling you to do it.

So there are many, many things that are affecting the small companies. When you say what effect does it have? It has had a great effect, and even though the Justice Department said, you know, they said this the week after Bell settled the antitrust case that they didn't intend to have any effect on independent companies.

Frankly, I don't think they realized that there were any independent companies, the way they came up with this settlement. I really doubt that they even knew there were any out there, but now they have said: Oh, don't worry it won't have any effect upon you smaller companies.

It is going to have all kinds of effects on us, and most of it is bad. We don't have a competitiveness marketplace out in our rural areas. They talk a lot about competition, you know.

That principle doesn't mean anything when you are out in a rural area. Nobody is going to come out there and compete with you. That is not the problem.

We do have lots of things to worry about in the rural area. I appreciate the opportunity to be here, and I will answer any questions that I can.

[Mr. Keen's prepared statement follows:]

PREPARED STATEMENT OF JACK C. KEEN, PRESIDENT, WESTERN NEW MEXICO TELEPHONE CO., ON BEHALF OF THE NATIONAL RURAL TELECOM ASSOCIATION

Mr. Chairman and Members of the committee on Small Business's Special Task Force on Telephones, good afternoon.

My name is Jack Keen. I am President of the Western New Mexico Telephone Company in Silver City, New Mexico. My company is an independent telephone company that serves about 3,300 subscribers spread over seven rural exchanges in southwestern New Mexico.

I am here on behalf of the National Rural Telecom Association, as the association's President. Our organization is a national trade association representing about 350 commercial telephone companies that borrow money under Rural Electrification Administration (REA) programs. The organization is also one of the three organizations that make up the Rural Telephone Coalition.

We are also part of an industry task force comprised of the Rural Coalition organizations and the United States Telephone Association about the effects of FCC policies. The task force is examining new data and looking for a common solution to problems confronting the telephone industry today. I should point out, too, that small companies are uniquely able to speak for our customers. I drink coffee with my customers. They are not just statistics to me.

I want to start by emphasizing how grateful the National Rural Telecom Association and the Rural Telephone Coalition are for your continuing interest in the problems facing small telephone companies. The national communications policies that we have relied on in bringing service to rural areas are undergoing radical changes and continuing challenges. Often small telephone companies feel helpless and pessimistic about the future as we see new policies that are harmful to our financial stability and the welfare of our subscribers come into being almost overnight and wonder whether our voices will ever really be heard. Small exchange companies like mine are worried that all the changes in telephone policy adopted to foster competition and deregulation have been designed primarily with telephone companies like the Bell Operating Companies in mind -- companies that are corporate giants. We are extremely gratified to see that you are concerned enough about us to have a special task force on telephone issues and to hold these hearings.

Let me start by telling you a little bit about my company, which will set the stage for some of the problems I want to talk about.

Approximately 3,300 subscribers are scattered over our 15,000 square mile service area, an area about the size of the states of Maryland and Connecticut combined. But the two states have about 4,764 times as many telephones as my company. As of 1982 we served about 1.24 subscribers per route mile in the rocky, mountainous, southwestern part of New Mexico.

My company is a small business. I notice that your letter defines small businesses as having 1,500 employees or less. If my company had anywhere near that many employees, we would have just about one employee for every two subscribers. Of course, we don't. We have less than 35 employees.

Since my company has so few subscribers per route mile, compared to the dense subscriber population in urban and even suburban areas, the cost per customer in my company is extremely high. The company's unseparated nontraffic sensitive cost -- that is, the cost of the wire loops which connect our scattered customers into a central telephone office -- is more than $97 per month. Yet, this figure compares to a national average of about $19 per month.

My company has even higher costs than many other small companies. However, low density and high costs are typical of REA borrower companies. For example, the national average number of subscribers per route mile for REA systems was 5.47 in 1982.

What all this means in simple terms is that the cost of getting service out to the scattered customers in the areas rural companies serve is higher because we have to use more telephone line to reach scattered farms and ranches, we have to send installation and maintenance men further and we have to make a profit on revenues from a smaller customer base. If the total costs of my company were spread over the small group of customers in our area and if we lost the substantial support from the nationwide and statewide long distance networks we have been receiving, our rates for basic service would become simply too high for our customers to pay. The result would be a loss for our communities, our company and the nation as a whole.

Former Policies and Practices Have Made Affordable Service Possible Where Marketplace Forces Alone Cannot

Let me take a minute or two to explain briefly the government and industry policies without which we would not have rural telephone service as we know it today.

Where did rural telephone companies come from? There was a time earlier in the century where there were many more independent telephone companies than there are today. Even then, rural areas were not served. During the Depression and following years, what service to rural areas there was was very poor and unreliable. With the goal of reversing this trend and extending basic affordable telephone service to rural customers, Congress adopted the telephone provisions of the Rural Electrification Act in 1949. This legislation involved a system of loans and loan guarantees to construct facilities for rural service. It established a national policy that service was not to be confined simply to those parts of the nation where it was economically feasible. For example, REA applies a specific service requirement for "area wide" coverage, which means that applicants for REA financing must serve all parts of their territories, not just the easily reached or profitable ones.

REA, then, has been responsible for helping to bring affordable basic telephone service to rural Americans. The companies that have sought such assistance have typically been small, often family-owned or cooperative, and have had strong roots in their communities. Our emphasis has been on service to our customers. Of course, we are also just like any other small (or large) business in that we try to make a profit on our operations.

The REA program has made it possible to construct facilities in areas where the "marketplace" had already found service to be unprofitable and which, thus, could not attract private financing resources. However, the high cost of operating these facilities has not been covered by any REA program. In view of this, how have we been able to charge our customers rates for basic local and long distance service that they can afford?

Traditionally, basic telephone service throughout this country has been offered as a "partnership" among many local exchange companies and AT&T as the sole source of interexchange service. Under this market structure, policies and practices were developed which complemented the REA goal of extending service to everyone. For example, the allocation of costs between the interstate and intrastate jurisdictions for regulatory purposes, known as jurisdictional separations, provided increasing support from long distance service to keep local rates reasonable. Moreover, my company's local rates are affordable mainly because, in the past, an unusually high proportion of all our revenues, has come from toll (long distance) settlements, and much of that has come from interstate MTS and WATS settlements.

In addition, my customers have traditionally paid the same rates for calls of the same distance, time and duration as all long distance callers in the country and in my state. These uniform or averaged long distance rates have been possible because the nationwide interstate network and the network within the state of New Mexico have both priced services for the network as a whole, in effect averaging our higher costs in with lower costs in some more densely populated and easier to serve areas.

Both of these important ways of supporting affordable rates in high cost areas have been carried out through the separations and settlements process, the traditional method for compensating my company and others like it for our part in originating and terminating long distance service. In the past, all the revenues generated by long distance rates throughout the country (or throughout the state in the case of New Mexico long distance service) have been pooled. Then, each company that takes part in the joint provision of long distance service has received its full costs of service back out of the pool. The interstate pool has naturally been of the greatest importance to New Mexico since it averages costs throughout the country. The New Mexico pool itself is very shallow. The return, or profit taken out of the pool by each company has been the same, so that each company has shared in the risks and successes of the joint enterprise.

With this background to show you how our subscribers were well served by past public policy, I'll now turn to some of the recent changes and resulting problems for us.

Problems For Small Telephone Businesses In The Wake Of The AT&T Divestiture Have Been Indirect Effects

The Committee asked about the impact of the AT&T divestiture on small businesses. This is not a simple question. The AT&T Consent Decree itself does not apply on its face to independent telephone companies or other small businesses. Indeed, as far as we have been able to determine, the possible impact on small companies was never taken into account at all in developing the terms of the AT&T divestiture. So, for small companies serving rural areas, the impact of the divestiture has taken the form of "shadow" effects. These indirect "shadow" effects are substantial. They include *how* the FCC has dealt with the decree and *what* its actions have been.

The divestiture has caused problems because of the FCC's response to it. For instance, one indirect effect of the divestiture was the breakneck regulatory schedule it forced the FCC to follow in its proceedings to develop access charges to replace the separations and settlements procedures compensating local exchange companies. For the BOCs, access charges had become a legal requirement. The FCC's spirit of urgency, however, increased the pressures of timing on small companies, too.

I want to stress that the FCC's approach, setting short deadlines and carrying on many proceedings at the same time, creates a special burden on small companies, which is separate from and in addition to the burden of the policy changes made in the proceedings. Small companies had been trying to protect their interests in the FCC's Joint Board proceeding concerning jurisdictional separations for non-traffic sensitive plant. Separations of customer loop plant are extremely important to companies like mine, because a larger portion of our investment consists of this type of facility than is the case for larger companies. We were also participating in the access charge proceeding, because obviously how we are paid for our part in the local distribution of long distance interstate service is crucial to our continued financial stability.

Responding to the AT&T divestiture schedule, the FCC zigzagged the deadlines for filings in the access charge and joint board proceedings so that they went forward fast, but out of step. On top of the need to define our positions and develop pleadings quickly, we found ourselves commenting on two different parts of the same problem in separate proceedings without knowing what the result would be in either one. This turned out to be particularly inappropriate since the FCC (i) decided that some sort of high cost assistance was necessary in the the access charge proceeding, (ii) left it to the Joint Board to figure out what the assistance mechanism should be, and (iii) later decided that one part of the protection for customers and companies in high cost areas, the 200 percent cap, should have been adopted in the access charge proceeding, instead. As a result, the 200 percent cap on interstate end user charges dropped out of the proceeding and was never formally adopted. I should point out that the Rural Telephone Coalition repeatedly urged the FCC to join the two proceedings because of their obviously close relationship, but the Commission refused.

Now the FCC has at least recognized the relationship between the two proceedings. It has asked the Joint Board to consider some of the issues at the same time as the FCC. However, again it has set a timetable that is so short that the Joint Board's recommendation will be made to the FCC only a month before the FCC acts. Moreover, the FCC closed the comment and reply comment cycle before data compiled by the National Exchange Carrier Association (NECA) became available. The NECA information is crucial both to evaluating other participants' positions and to developing our own definitive proposal. Is this the way to develop sound public policy through the regulatory process? I suggest that it is not.

Once, again, the FCC's timing and procedures are hampering, rather than aiding, small companies in their efforts to protect themselves and their customers.

When the FCC looked at small companies' needs in its Access Charge case, it did not obtain enough facts or sufficiently support its decisions. A good example of this was the average schedule and party line issues. The FCC decided without adequate reasons or facts that if a company owned an exchange carrier that had the resources to perform full scale studies to identify the costs of its service and also owned a separate company which used the average schedule procedures designed to save the burden and expanse of such studies for small companies with less resources, the co-owned company would lose the opportunity to use the average schedule procedure. The FCC also rejected, with no meaningful justification, a Rural Telephone Coalition approach to dividing access charges among party line subscribers. Although the FCC was aware that these were issues of importance to small companies, it took a court of appeals ruling on these issues to send them back to the FCC for proper attention. It should be noted that these Rural Telephone Coalition issues were the only questions which the court found had been improperly decided by the FCC on review of the Access Charge decision.

An example of a substantive "shadow" effect of the divestiture arises from the Commission's pending proceeding on equal access. The concept of equal access, as you know, was translated into a specific set of requirements in the Consent Decree. Under its terms, the BOCs must follow a precise schedule in upgrading their facilites so that competing interexchange carriers will be able to interconnect for service with local exchange distribution facilities on the same basis as AT&T. As with the other requirements of the Consent Decree, this requirement does not apply to independent companies. However, the FCC opened another phase of its access charge proceeding in response to the Consent Decree requirement, proposing to extend the same requirements to independent companies. The Rural Telephone Coalition has pointed out to the Commission that the resources and facilities of small and rural companies are far different from those of the BOCs and other large companies. We have urged the FCC not to force independent companies into access arrangements flowing out of an antitrust proceeding against the Bell System, but rather to adopt rules and procedures for small companies that properly reflect their smaller size, resources and different equipment. We cannot yet predict whether the FCC will protect small and rural companies from general requirements designed for giant companies and from the burden of having to go before the agency to justify treatment suitable to their size and characteristics by seeking waiver on a case-by-case basis.

Independent companies also had only the most minimal chance to influence how they were assigned in the course of the Bell System's design of an entire new national telephone service structure involving LATAs, or Local Access and Transport Areas. However, where our companies are assigned is very important to us: The extent that we can convince state commissions to retain certain pooling and rate averaging arrangements and the other companies with which we can be associated in such arrangements will generally be limited by these LATAs. Of course, the extent to which pooling is successful in keeping the costs down for high cost areas depends on the characteristics of other companies in the pool and, therefore, on the characteristics of the other companies in any particular LATA.

What all of these examples of the "shadow effects" of divestiture mean to small companies, then, is that (i) they have created a procedural environment which has thwarted our ability to have our needs and those of our subscribers met and (ii) the process so far has largely been controlled by the conditions under which the very large exchange carriers operate.

The Need For Legislation Depends On Further Pending Regulatory Actions To Maintain Affordable Rural Rates and Viable Small and Rural Telephone Companies

The divestiture is only a partial source of the problems for small companies. The basic clash is between the FCC's pro-competition and deregulation goals and the interests of residential and small business customers, especially in high cost rural areas. The access charges adopted by the FCC to accommodate its pro-competitive policies create a lot of potential problems for small and rural companies and their customers. The FCC suddenly changed from the traditional view that long distance service should pick up a share of the cost of local distribution of long distance calls to the novel notion that each customer was the "cost causer" as to his telephone line, and should pay all or most of its costs. Using the authorized interstate rate of return of 12.75 percent (which we believe should be done in determining cost per loop), Western New Mexico's unseparated cost per loop is approximately $97 per month. This is more than five times the nationwide average.

Under the Joint Board's present high cost proposal, high cost funding goes to offset the intrastate subscriber loop cost allocation. Without a cap, interstate NTS costs to be recovered through end user charges to my subscribers would, therefore, be 25 percent of $97, or $24.32. This would greatly exceed the nationwide average interstate end user charge of $4.75, and we would still have substantially more costs per line to pick up each month through some sort of intrastate charges. Again, even though our costs are unusually high, subscribers of companies that are typical REA borrowers would also face unreasonably high end user charges.

Rates at this level would not be affordable. The goals of the REA program would be frustrated. Moreover, companies like mine relied on REA funding and policies and the long-established separations and settlements process. I think it is just plain crazy to say now that my customers who are using local loops up to 30 miles in length knowingly "caused" the costs so that they should have to pay an unconscionable amount to be a part of the national network. This theory may have some basis in economic thought, but I can't see how it fits in with the public interest at all. It also gives interexchange carriers an almost "free ride." This result also seems crazy. These same competing carriers have been clamoring for years that they must have not only access, but fully equal access, if they are to carry on their interstate services successfully. They seem to be "cost causers," too, that should pay a fair share.

Our subscribers cannot be asked to bear the burden of such high costs for interstate service before they make a single interstate call. We fear that a significant percentage of our subscribers would choose, or be forced, to discontinue service rather than pay such charges. Income elasticity studies that present a single measure of elasticity of demand are misleading in that they hide the higher elasticity of demand of the low income rural consumer. The threat of a significant loss of service in our study areas is real. Even a relatively small decrease in "universal service" in rural states would be disproportionately adverse since the household penetration of telephone service in places served by small and rural companies is relatively low. According to the 1980 Census statistics reported in the Michigan study, for example, several rural states lag behind the national average of 92.9 percent in telephone penetration. New Mexico, for example, has a penetration rate of only 86.1 percent.

The greatest injustice is that the rural subscribers who would experience the heaviest impact of end user charges will be the last to benefit from the MTS/WATS competition upon which the development of the FCC's access charge plan is predicated. Rigid adherence to the economic theory of "cost causation" will not only seriously undermine the FCC's goal of preserving universal service, but may also make rural subscribers second class users of the basic national telephone network. This result just isn't fair or sound public policy.

It's true that the FCC had the Joint Board design a high cost support mechanism. This mechanism will replace the old system where we recovered our costs and the achieved interstate rate of return from the nationwide pool with the new procedure where companies with comparatively high costs receive some part of their costs from a pooled carrier common line charge collected from all interexchange carriers. The support that is not picked up by the new tiered "expense adjustment" scheme for high cost support, however, will show up in my subscribers' end user charges, since the plan currently does not even cap these, though a $4 interim cap has been promised until 1989.

Even the high cost factor that the Joint Board and FCC adopted has flaws that can almost completely destroy its helpfulness for many small, REA-financed companies. This is because the FCC and the Joint Board suddenly decided, with virtually no public comment, to determine high costs on the basis of a strange hybrid measurement of the cost of capital. Instead of using the 12.75 uniform cost of capital used to develop access charges, the high cost factor looks at a company's own cost of debt and at a uniform cost of equity. Small REA-financed companies suffer twice: They have low cost REA debt, which was intended to benefit their customers and not to reduce payments by interexchange carriers, and they are typically highly leveraged. This means that using a uniform cost of equity appropriate for the Bell System severely underestimates the cost of equity for the small companies with the highest financial and business risks in the industry, despite their reduced borrowing costs.

My company is a good example of this effect. Using the FCC's "actual cost of debt" scheme, the weighted cost of capital for my company comes out to 6.5%. This means that most REA borrowers' costs appear to be far below the costs calculated using the uniform 12.75 rate of return when it comes to deciding whether they qualify for high cost support. At the same time, the hybrid formula gives the larger, less risky companies with less leveraged financial structures but a higher cost of embedded debt, weighted rates of return above the 12.75% level in many cases. Measuring high and low costs alike on this standard means that the national average cost per loop is made to appear higher, so that it's harder for small companies to qualify. At the same time, our costs are made to appear lower, so that even if we can qualify, our available support is reduced. For example, my company's unseparated cost per loop is made to appear to be about $330 less per year, or more than $27 per month, by the change from the 12.75% uniform rate of return to the actual cost of debt approach. Other companies may lose support entirely. For my company, the change results in about a $600,000 reduction in the support available to keep rates reasonable each year.

We are attempting to obtain a change in the present ill advised mix-and-match cost of capital from the FCC and the Joint Board. It is too early to determine whether we will be successful, but as you can see, the result of continuing this policy is to gut the availability of high cost support for small businesses in high cost areas.

Legislation Is Not Needed Right Now To Resolve The High Cost Support Problem

Mr. Chairman, as the Special Task Force correctly observed in its invitation letter, many small companies serve high cost areas. The Special Task Force, therefore, asked how legislation could be devised to keep residential and business telephone rates at a reasonable level in high cost areas, while still providing incentives to keep costs down.

You might think from our many criticisms of the FCC's actions that we would be urging immediate legislation. However, we do not believe that legislation should be considered right now. As I have described above, many of the problems we have with the FCC's earlier decision are again before the FCC and the Joint Board now. We are willing to let this process take its course.

It is premature for us to decide that the agency will not take our needs into account, although we also cannot be sure that it will change its earlier decisions sufficiently to let us keep our rates reasonable and our quality of service high. However, we believe that your interest and the interest of others in Congress in the problems of small telephone companies and their customers remain very important. When the efforts at legislation were suspended in the last session after adoption of a bill by the House, one of the reasons for the Senate's suspension of activity was assurance by the FCC that it would take into account the issues raised in a letter from 32 senators led by Senator Dole. Among those issues was the need to assure that small telephone companies would receive more high cost support. We have suggested that the FCC limit assistance to companies under 50,000 or 100,000 subscriber lines and support companies of this size whose costs are above 110% of the national average through a mechanism that transfers 90% of the costs above that level to the carrier common line charge to be paid by interexchange carriers. Even at the 150,000 level, we would not expect this to burden the fund too much. If the FCC adopted this proposal and did something to limit or eliminate the interstate access charge burden on our customers, we would have no need of legislative assistance with respect to high cost support.

However, the need for legislative efforts cannot be ruled out now, either. We have heard that the Joint Board and the FCC have a number of alternative proposals under consideration. Among these, we understand, are proposals that would actually decrease the support for many rural companies with costs that are high, but not as high as the costs of some extremely high cost companies. We believe that this is not in keeping with the FCC's assurances to the Senate and conflicts with the public interest. However, if the Joint Board and the FCC nevertheless adopt a proposal such as this, we may well need to seek your assistance through legislation once again.

While I am on the subject of high cost support, I'd like to respond to the suggestion that some additional incentives are needed to keep the costs of high cost companies down if they receive support to keep residential and business telephone rates at an affordable level. You should be aware that such incentives already exist and are effective. REA borrowers must meet certain REA standards, since the government programs have careful controls to safeguard the security of loan funds and guarantees and to assure their use for the intended purpose. State regulators also watch over the activities of telephone companies. Another very effective efficiency incentive for small companies is the need to justify both their local rates and any interstate end user charges that they are forced to impose to their customers. Some part of every dollar we invest must show up in the charges to our subscribers, and in areas served by small and rural telephone companies, these tend to be our neighbors and friends. We have perhaps a higher incentive than many companies to keep our costs down. Indeed, in the state access charge proceeding in Texas, a group of small companies filed information showing that they were more efficient than a large company which was opposing high cost support on efficiency grounds.

It is not only changes that the FCC has already adopted that are threats to the ability of small telephone companies to operate profitably. Changes under consideration are of grave concern too.

The first I'll discuss is potentially a very serious problem. On August 13, 1984, the FCC issued a Notice of Proposed Rulemaking for a proceeding to determine what the rate or rates of return for long distance services should be for both AT&T and exchange companies. The FCC plans to look into several alternatives, ranging from continuing the present uniform rate of return approach, but limiting it to exchange carriers, to breaking carriers down into groups to establish different rates of return or different formulae for identifying the cost of capital. As REA borrowers, we are seriously concerned when we see a proposal to group REA borrowers as a separate group, one of the ideas the FCC has said it will explore. The actual cost of debt provision in the high cost factor, which we discussed before, demonstrated to us that the FCC has little understanding of how high the cost of equity of small companies actually is because of the inherent riskiness of highly leveraged small rural telephone companies. The cost of equity for such companies is virtually impossible to demonstrate precisely, since there is no market for the equity of companies like ours.

We plan to do our best to convince the FCC to adopt an approach that does not penalize REA borrowers and their subscribers or subvert the Congressional policy which underlies the REA program. The significant injury to subscribers is threatened because, whenever support is lost from present sources, companies have no choice but to look to the residual local ratemaking process to keep themselves financially whole. Those local rates, of course, are paid only by their own subscribers, to the extent that there is no assistance from nationwide or statewide averaging and pooling mechanisms. Disguised shifts of cost onto local rates obviously also undercut the high cost support established by the FCC's access charge plan.

We Are Still Examining The Proper Solutions To The Many Problems Of Small Companies In The Light Of Newly Available Essential Information

The Committee's final question concerns the problems of small companies and how we think they can be solved. Let me start with some of the problems I have not already discussed. Deaveraging of toll rates poses yet another grave threat to rural companies and their subscribers which will make them pay the price of competition although they do not see the supposed benefits in the way that urban and suburban areas do. The cost of long distance service is also higher when sparsely populated areas are involved. The FCC first found that long distance competition presented no real danger of deaveraging long distance rates. However, with the divestiture and the FCC's changes in policy, the pressures have grown rapidly. Testimony in many state proceedings alike shows a belief that competition will sooner or later lead to extensive deaveraging.

Competition has also been said to require substantially more deregulation, even of AT&T, to assure that the players compete on a "level playing field." While we are sympathetic to AT&T's problems, particularly in light of the FCC's large discount to bolster the competitive position of interexchange companies other than AT&T during the transition to equal access, it is nevertheless clear to us that deregulating AT&T threatens the very existence of service to rural areas. By definition, the higher cost of serving these areas makes them less economically attractive.

Deregulation removes the time-honored regulatory requirement to serve areas that have been served under different policies in the past, but which are now seen to impede competition on dense routes. Deregulation would also take away the FCC's power to require rate averaging and pooling mechanisms to spread the costs of higher cost service across the broader pool of subscribers with lower cost services.

Another potentially troublesome problem relates to accounting changes. A couple of years ago the FCC put out a proposal for changing the uniform system of accounts which would have required all companies to keep records in enormous detail. Such detail might be appropriate for huge companies. However, for smaller companies with fewer employees that have to serve many functions, the proposal would have been devastating, both in expense and the burden on limited manpower.

The initial proposal would have gone to as many as 21 decimal points in the account numbers. Since then, there have been a series of meetings looking towards modifving the FCC proposal. We cannot vet tell what the final outcome will be. We have hopes that greater detail requirements mav be restricted to large companies, with less detailed requirements for small companies. Even this, however, will not entirelv ease the minds of those of us who operate small companies. Once the detail required of huge companies is used in state proceedings, there remains a threat that state commissions will want the same level of detail even from small companies. The whole question of proper accounting procedures typifies the problem of small companies when policies are developed that start with the characteristics of large companies in mind, with apparent unawareness of or insensitivitv to the special needs of small companies.

Finallv, the emphasis on competition has brought about increasing changes in attitude among our former "partners" in the interstate long distance enterprise, going bevond FCC procedures and substantitive policv changes. It used to be that support mechanisms built into the settlement compensation process protected affordable rates for rural customers and the financial viability of small companies in high cost rural areas. Now, we must make manv arrangements bv negotiating with neighboring companies of far larger size and increasinglv different interests. One good example is the emphasis of large companies serving dense urban areas with many large, high toll-using business customers on the so-called "uneconomic bypass" problem. These companies have as a primary goal keeping those large business and government customers from using alternative long distance facilities. In many cases this has led large exchange companies to oppose continuing high cost assistance to small and rural companies at levels which we think would be adequate.

However, their circumstances are much different from ours. They are able to benefit from methods like local measured service that supposedly give customers more control over what they pay. In small and rural areas, the cost of local measured service often exceeds any possible benefit in keeping rates affordable or aiding efficiency. It has also often met with adverse customer reactions.

We predict that having a high level of assistance for companies of less than 50,000, 100,000 or even 150,000 subscriber access lines can be achieved without putting any undue burden on the national pooling mechanism which would be used to support it, that is, the Universal Service Fund.

The Committee has asked us to be specific about how to solve the problems that confront small companies. I can be very specific about the goals for decision makers, but I'm afraid that I cannot be as precise about the solutions.

There is a reason for this, although I know it seems like a very late date not to know exactly how to solve the problems that have, at least in their general outlines, been around for quite some time. The reason is that only very recently has detailed and accurate informaton about the costs of different companies throughout the country even begun to become available. We expect it to be very helpful in determining the true extent of the problems as well as the benefits and costs of various alternative solutions that have been put on the table before and may be developed now that the facts are available. Having more information about the impact of various alternatives for the first time has also put us in a position to work actively towards obtaining agreement among all exchange telephone companies about how to solve the problems of the whole industry than would have been possible at any time in the past. That is the purpose of the industry task force I mentioned earlier that is obtaining and analyzing the NECA data. Our position on the access charge and high cost support issues before the Joint Board and the FCC the last time we had a chance to take a written position is consistent with this. There we stressed the need to examine alternatives, including maintaining reasonable responsibility for interexchange carriers to pay a fair share of local distribution costs, perhaps developing a reasonable cap for the end user charge or changes in cost allocations to protect subscribers from disproportionate basic charges, or finding different ways of treating smaller and higher cost parts of the industry.

As I mentioned, the Rural Telephone Coalition has, in the past, advocated that 90% of each small and rural company's costs over 110% of the nationwide average should be spread over the nationwide network, rather than borne by the subscribers of these particular companies through excessively high charges. Some support mechanism must also be developed to prevent high interstate access charges and long distance rate deaveraging.

Along the same lines, we have always disputed the notion that access charges placing all or most of the nontraffic sensitive costs directly on subscribers on the false assumption that they "caused" those costs and should have to pay them ignores the role that interexchange service has in requiring and using local distribution facilities to originate and terminate calls. We continue to believe that the "cost causation" theory vastly oversimplifies the issue of who should pay how much for subscriber loop costs.

While we recognize the need for some toll deloading so that large long distance customers are not asked to pay prices far exceeding the costs of serving them under usage-based prices, we do not consider that a proper balance has been struck between fears of "uneconomic" bypass and the interests of residential and small business telephone subscribers and the companies that have undertaken to serve them and incurred substantial costs on the basis of long established policies and practices. We believe that an appropriate solution should balance these interests carefully, rather than giving in to hysterical handwringing about bypass.

On the subject of the FCC's new rate of return proceeding, we believe that an overall rate of return or some reasonable variation of an industry-wide exchange company plan is essential. The chosen cost of capital framework must not discriminate against small REA-financed companies by penalizing them for a program designed to assure reasonable availability of service throughout their territory. It is essential to recognize the extremely high financial and business risks that such companies face compared to the rest of the exchange carrier industry.

Conclusion

Mr. Chairman, I hope my testimony has been useful in describing the reasons behind the great uncertainty and trepidation with which small telephone companies view the FCC's headlong rush to deregulate and foster competition throughout the United States telephone industry. So far, the FCC has realized that its new policies require some sort of accommodation for small and rural telephone companies and their subscribers. So far, we believe that the challenge of establishing a new competitive environment while preserving the public interest in affordable service and reasonable parity for rural and urban areas has not been met successfully. We are heartened that the FCC and the Federal-State Joint Board are reexamining many of the issues that trouble us. However, we have no way of knowing whether the answers will be satisfactory on this round.

Therefore, although we do not advocate legislative action now, we hope that you will join us in monitoring these regulatory actions as they occur to see what the next few months bring.

I would like to close by once again thanking the Committee for holding these hearings and for its manifest sensitivity to the special problems of the small businesses that make up the rural telephone industry.

And now, Mr. Chairman and members of the Special Task Force, I would be pleased to answer any questions you may have.

Mr. WYDEN. Thank you for an excellent statement.

We are going to go out of order at this point, because our colleague from Wisconsin has a tight schedule, and we will proceed with the gentleman from Wisconsin for whatever comments of questions he may have.

Mr. ROTH. Thank you, Mr. Chairman.

I appreciate your kindness and consideration, and wish to congratulate you for your initiative and your leadership in this matter.

Mr. Chairman, I would like to submit today a review of the task force information on a factfinding hearing we had in Green Bay, WI, September 14.

This forum discussed the impact that the telephone access charges are having on small business, and Mr. Chairman, we had a terrific turnout on September 14, and I can tell you that from the reaction we had there, there is a great feeling of importance about this issue in the Midwest, and I suspect throughout the entire Nation.

Much of the testimony was testimony that dovetailed into the testimony we had from these four excellent witnesses today, so I am sure it is true not only in Tennessee and North Dakota, but it certainly is true also in our home State of Wisconsin.

Mr. Chairman, I would like to submit to our committee the testimony I received with also a synopsis of verbal testimony we received for this committee.

Mr. WYDEN. Hearing no objection, that certainly will be done.

[The full text of Congressman Roth's forum on telephone costs is included in appendix A.]

Mr. WYDEN. I want to commend the gentleman for his initiative, because I would hope that as many members of the task force as possible do just what the gentleman has done, hold forums in your districts, and get all the information you can, and we will make a copy of your materials a formal part of the record.

Mr. ROTH. I would like to also ask permission to revise and extend my remarks.

Mr. WYDEN. Hearing no objection, please proceed.

Mr. ROTH. Thank you.

At this time, a continuing resolution is on the floor, and I have to go to the floor to debate this issue, but I want to again commend the members and you, Mr. Chairman, for the work you are doing, and thank our excellent witnesses for coming here, because that is an issue that is not going to go away.

This is an issue we are going to have to address. Thank you, again, Mr. Chairman.

Mr. WYDEN. Thank you very much.

The gentleman from Tennessee.

TESTIMONY OF HON. JIM COOPER, A RERESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. COOPER. Thank you, Mr. Chairman.

It is a pleasure to be here today, especially before such a distinguished panel, and I mean particularly Louise Brown, because we are proud to have her as such an outstanding spokeswoman.

I can't imagine a more effective spokeswoman, and no more effective testimony, and I feel sorry for Jack for having to follow you.

Ms. **Brown**. I spoke from my heart.

Mr. **Cooper**. Could you all just give me an estimate of the impact the access charges did have for multiline, small business users, whether you think overall the average small business in your area got more of a benefit from it than a detriment, or whether the reverse was true, whether they ended up being more harmed by it?

Because we have been receiving data on this task force from all over the country, and another one of my constituents submitted his estimate of that same conclusion, based on data he received immediately after the charge went into effect.

Can you give me the indication from your area, whether the small business man has been helped or hurt in the aftermath of this charge decision?

Mr. **Hagen**. We have had no survey in North Dakota, but the small business people are not very happy about it. It has increased their costs, and they don't see it as being necessarily beneficial so far.

Mr. **Keen**. I might say that we have very few businesses in our area that had two lines, so they didn't have to worry too much about it. Most of the ones that have multilines, Government, Forest Service, people like that, we actually didn't have any.

The ones that we do have, we have had very few complaints up to now. They understood it. However, when you hit them eventually we have been talking about $8 on the interstate side, and then there is the intrastate side. We already have an intrastate access charge in New Mexico. When you add it all up, the first thing you know, it is going to more than double the rate.

That is if they finalize the access charge like the FCC started out with. They have changed so many times now, I can't tell you what their latest proposal is; but whatever it is, it is going to raise the price.

I don't think we will hear a great clamor until it gets into the $7, $8, and $10 a month range.

Mr. **Cooper**. Louise?

Ms. **Brown**. Although I didn't have much protest from my multiline users, our economy is really bad in Lawrence County, as you know, due to the bank closings, and I had a small company bankruptcy last week, in fact, I know of two chapter 11's.

Of course, I am not attributing that to the access charge, but at the same time, we can't estimate the damage. I know it hasn't resulted in any more calling.

You know, the toll rates are supposed to go down. We are having less calling, but it is due to our suffering economy, but it is hard for me to make a real evaluation of it.

The fact that it went down that easy is because they have heard a lot about it, and we talked to them a lot about it and we have made our position clear all along, that this seemed to be something that had to take place, due to technological advances, and we have been hearing about it a long time.

I have been talking to my people about it, but I am like this gentleman, I think it is going to be ridiculous to access, to put that kind of access charge on people out in the future.

I know that $2 more on some of these elderly women and their residences and they say well, you will go to metered service, but those are the people that stay on the phone all the time. Those poor old ladies, they can't go anywhere else, and they talk to their lady friends 6 hours a day. I don't want them to pay for the use of that phone.

Now, the teenagers, we will charge them.

Mr. DENNIS. We serve very rural areas. It is a farm economy basically, and they have not been doing very well, the business in the small towns, and it is impacted very directly from the small farm economy.

If the farmers are not raising grain and getting a price, they have no money to spend. A farmer is one that turns a dollar pretty fast. If he gets something, he gets to town and spends it.

They are a long-suffering group, very tolerant, but I am concerned over the fact that, while they have not said a whole lot at this point, it is building up and when they do, when it all comes together, it is definitely having an impact on them, and we will hear from them.

Mr. COOPER. What is current extent of bypassing in your area, and what do you predict the potential would be, say, 5 to 10 years down the pike, if local charges, or if the rate structure stays pretty much as it is now?

Are you already facing a 2-percent loss and do you possibly face a 50-percent loss? Give me a ballpark estimate in your areas.

Mr. HAGEN. We have not had a lot of bypass yet, but all of our companies are very concerned about that. Less than 10 percent, for example, of Bell's customers are big users, about 100 customers are their biggest users, and Bell is very worried that if they lose them, they are going to be looking at something like 15- to 20-percent loss of their revenues from just these very few businesses in the State of North Dakota. All of our co-ops and individuals all have individual problems.

We are worried about bypass. They are going to have to try to meet it in some kind of a way, because it is a competitive arena.

What has been said by all panel members now, and also this morning, is that where you don't have competition, and we don't have competition in rural areas, how do you continue service?

Our companies have to serve. If bypass gets to be extensive, it is going to be harder for them to serve, so the rates are going to have to be higher, or you won't keep those companies in business, and that is a real worry.

So far, we are doing well, considering everything, and that is a real tribute in our State to our managers, boards of directors and the people that they serve.

We had hearings last year on the access situation, and had tremendous cooperation, and it is continuing with all of our companies, but we are trying to figure out ways to handle this with divestiture.

I hope we are going to find some solutions, but your committee is going to help us, and I do have a feeling that when you meet the FCC listens—and that is what we are concerned with.

Mr. KEEN. I think the real impact of the bypass won't necessarily be in our own systems. If there is a satellite set up over in New

York somewhere that is detracting from the nationwide interstate pool, it affects us just as much as if it were bypassing our own system in our area.

Mr. COOPER. I understand.

Mr. KEEN. The Forest Service has a microwave system planned that almost parallels ours. We have 200 to 300 miles of microwave, and they are going to parallel all of it, even though we proved to them that we had a most reliable system, also we quoted them rates that were very reasonable. They admitted that.

Everything they would put in, you know, a very backbone type system, and use ours for backup, when theirs was down. We spent a lot of U.S. Department of Agriculture money out there building ours and then here another department, of another bureau within the Department of Agriculture, is bypassing it.

It don't make sense, but that is the way it is done. The State of New Mexico is connecting almost every State office they have got over the whole State with it, and all the universities with a microwave system.

That is going to bypass everybody. Everytime somebody bypasses, that raises the price for all the rest of us.

Ms. BROWN. We have had water, OCP for a long time, and that is a bypass. We lose all kinds of revenue for people who use those kinds of services. We have had TVA. It has hurt us, even with the previous settlements.

It certainly hurts our settlements now since we have to create pools. I am sitting in a perfect position to be hurt because of the proximity of Alabama. They can shoot down there for a few dollars a month for a circuit, and I don't think I have got a right to deny them those requests for those circuits, and I had an insurance man to come in and ask about the same thing, and that is what they are doing.

So as word circulates, more and more people that can afford it can pay bypasses, and that is what is unfair, the people that can afford it can buy service cheaper, and the people that can't afford it will have to pay a little more.

We don't like that.

Mr. DENNIS. In our area, we have quite a bit of EAS and we have people coming to our company now, asking for foreign exchange lines. It is a matter of time before they will come in and skim cream through the EAS procedure.

Mr. COOPER. One of the panelists suggested earlier some possibility of maybe getting the bypassers to help contribute to the pool in some way. What do you think of the feasibility of that idea?

Mr. HAGEN. Speaking for our State and for the association, we would favor that. As an association, we would favor something called the St. Louis plan. One element is simply that, under whatever the FCC might do, and we have to operate with where they are right now, the States ought to have the ability to be flexible and some of that flexibility might be exactly what you are talking about, devise ways to get some money from the bypass, that is fine.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. WYDEN. The gentleman from Texas.

TESTIMONY OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Mrs. Brown, as the father of a teenage girl, if we were to start charging teenagers for access, I know one young lady who would lose her access.

Ms. BROWN. We would move to meet our teenagers and not our senior citizens, and that is the same problem that the FCC and all of the people have got. You want to help the whole system without penalizing anybody.

Mr. WYDEN. I also want to point out, we are not too interested in losing older voters or future voters, but we may want to debate this a little bit more in the days ahead. I appreciate the gentleman yielding.

Mr. STENHOLM. You are not advocating legislation at this time which is very consistent with what you are saying. Following up on Mr. Cooper's questioning high cost areas have always been dependent on a pool.

We didn't always call it a pool, but we do now, and we have talked about bypass, and I think it would be obvious that if we continue to have bypass, we will continue to threaten to the pooling share of costs.

What is your perception of the attitude of the people, not only of your customers, but of your community concerning the concept of universal coverage for telephone service? Do they think about it?

Are they concerned about it?

Mr. HAGEN. I can start. I can speak for our State, that there is tremendous concern and interest in maintaining universal service. People expect it, they like it, they use it, and as I said earlier, we worked a long time in our State to get the telephone system in place that we have.

We do have one of the greatest telephone systems in the whole country, if not in the world. It is universal service, and the last place to get service was Squaw Gap in the Badlands, not very many years ago.

It is there, and it is at a reasonable charge. All during the talk prior to divestiture, the MFJ decision and since, we have had people even more concerned with maintaining universal service than they were in terms of what it might cost. They are concerned about costs, too. It is probably more true in rural areas than it might be in cities. Washington, DC, everybody expects they are going to have telephone service. Rural North Dakota, it is just trying to find anybody to serve at all.

There are good companies that are well managed, and what is true there is true across the country, whether it is New Mexico or wherever.

Mr. KEEN. Mr. Stenholm, as I think back when I was growing up in Spur, TX, a place that you know something about, my dad worked for Southwestern Bell there in Spur and every line in Spur ended right at the city limits.

There were not any lines out in the country, except the single wire lines that the ranchers and farmers had run out there themselves.

It was very poor service, but now, I guess everybody in that whole country out there has a telephone because of the REA Program. It is great, because I can remember when they ran the first power lines.

I can't imagine that kind of country being without power and telephone. It advanced the whole area.

I know that my customers now know more about availability of service than they ever knew because we have been telling them and explaining to them where the money comes from, you see.

They thought they were paying all of the costs when they were paying $8 and $10 a month, but really, they were just starting because, shall we call it a subsidy or whatever, it is just like the roads in New Mexico. We wouldn't have any if they weren't subsidized, because there is not enough people out there to pay for roads.

I made a point of a meeting in Denver last year, talking about post offices that we would probably only have about two post offices in the whole State of New Mexico if they all had to stand on their own 2 feet—and both of them would be in Albuquerque, not Silver City.

Subsidies for these purposes are not out of line. This is something that the U.S. Congress decided a long time ago about universal telephone service. It is not anything new. This is the way that they decided in their judgment that it had to be done, and lots of people recognize it.

Mr. STENHOLM. I don't think there is any question that these are the people you are talking about, and the folks that you are serving. My question concerns those not living in rural areas, or those senior citizens who are not yet affected.

Are the American people willing to accept the fact, as a society, that there is a need of subsidization at differing levels, whether it is done on purpose or by accident?

I know how the rural areas feel. You have already testified. I was addressing the question to you for the benefit of others who are in this room right now. How do we address the very real facts of increased costs, and how do we address the fact that the average consumer has been grossly subsidized for years in the delivering of the best telephone service the world has ever known?

Technology is bringing this on and my concern is how do we utilize the technology of today and still address the human problems of today?

Mr. KEEN. There has to be a compromise, I definitely think. I don't think the end user should pay all of the costs like the FCC would have had us do last year, when they came out with their first access charge plan.

Neither do I believe that AT&T should have to pay all of it. I am sure there is a compromise position there somewhere, and the only person that I have heard speak out about their feeling was a Senator from Michigan last year in the joint hearing, when he brought up that he did not think that the people in Michigan have to pay for some rich rancher's telephone in Arizona.

I don't know any rich ranchers. I would like to find one. They are pretty hard to find. Even if there are some, I imagine that that rich rancher probably buys some Ford cars that are made in Dear-born, MI, and somehow or another, I don't think we ought to set one State against the other.

This is the United States, and I think that we are all in this thing together, and I am not sure that it ought to be any problem to anybody, to help somebody else have a telephone.

Ms. **Brown**. I work in human services, local, regional and State levels. I get a lot of flak from working with people I talked to, about a lot of the welfare programs, what is given to people that can't afford it, but still, when you talk about these people that maybe couldn't afford the telephone, I have had those very people say that they need their telephone subsidized like they do their rents and other things.

It surprised me that they said that, but I think when the chips are really down, I think the American people really feel responsible in that manner. I don't think they are really as aware until you make them aware, that they have been blessed to have this universal service.

In Jim's area, it is still not universal. He has a lot of people that still don't have telephone, but they still remember how it was to have eight-party lines, not that long ago, because that is what we have had a few years ago, but they remember that and when they know and appreciate the kind of good service they have now.

Mr. **Stenholm**. That is certainly true. I am not all that old, but I remember the crank telephone. I remember when the telephone went over the high line wire, as we used to call the electrical service, and how fortunate I was to live in a home that had a radio that had the capacity to pick up telephone conversations on your radio.

Those were the good old days. Now, we have got high technology and bypass and access and pools. I, for one, appreciate the fact that none of you is clamoring for legislation as nobody has got a handle on what we should legislate.

You also acknowledge the problem of paperwork. I have been on the Small Business Committee for 4 years, and one complaint is paperwork. Every time we legislate something, we create more paperwork, and that is another one of these inconsistencies that we have all got to look at.

Thank you, Mr. Chairman.

Mr. **Wyden**. I think it is clear that many of these changes are just unintelligible to people. It becomes incoherent. My colleagues asked a number of very good questions. Let me try to follow up.

The theory behind what the FCC has done is that long distance rates are supposed to go down as a result of competition, and local rates would go up a tiny bit, but not as much as long distance rates went down, so you would come out ahead.

That was the theory. I gather from all of you that that hasn't happened in rural areas.

Mr. **Hagen**. Right.

Mr. **Wyden**. It seems to me the key, then, if this kind of formula where long-distance rates go down and local rates wouldn't go up very much, if it were ever to work, you have to have competition in the long-distance area in rural areas. That you are telling us that is not very likely.

How much would it cost you to provide access to MCI and GTE, Sprint, so that your customers could benefit from long-distance competition? Would the costs be so high so as to make that prohibitive, out of the question?

Mr. KEEN. It wouldn't cost me a great deal to access any of them because we have digital offices, but there is not enough traffic there for them to be remotely concerned. They could come through one of my towns, but they are on top of the hill.

They are just coming across the State of New Mexico. They are not going to stop. They are going from coast to coast. They could care less about our small amount of customers out there. There is no money in it, so it wouldn't be practical for them to do it.

It wouldn't be cost prohibitive as far as we are concerned. It is cost prohibitive to them.

Mr. WYDEN. Sir?

Mr. DENNIS. Once again, speaking from local experience, we have 26 exchanges who are scattered out quite a bit, and many of the NTCA companies, the same way. To gather that traffic together is going to involve a fair amount of cost for microwave towers, et cetera.

The density of traffic is just not high enough to justify it.

Ms. BROWN. My people are very small toll users, very conservative people, old-time German immigrant settlers in the area, and they don't make a long-distance call if they don't have to, so I certainly wouldn't see any attraction to a carrier to come in there in competition.

Mr. HAGEN. We don't have any yet. We have indications that they are coming. Long-distance competition from MCI, whomever comes in and reduces revenues, the companies that are there have to make up that revenue some place, and that means the local rate.

Mr. WYDEN. Deaveraging, are we all talking about the same thing? I want to make sure. Averaging a 200-mile intra-LATA call in a rural area and the same 200-mile call between New York City and Washington, DC, means the call price is the same. If we deaverage, it strikes me that rural rates are sure to rise.

How much will they rise if we deaverage?

Mr. HAGEN. We are worried about it, and you are exactly right. I have heard as high as 300 percent, but I couldn't give you a definitive figure, it might even be more.

Mr. KEEN. I have heard at least double, you know, where they would deaverage the rates to the point they could compete on the heavy routes, and, of course, the cost is going to go to the low routes, and that is in the rural areas, and anybody's guess is as good as anyone else's.

Ms. BROWN. I have nothing to add to that. That is what we are being told in the industry.

Mr. WYDEN. The next question I have. I can't for the life of me figure out why the FCC won't apply red flags to small telephone companies to give you some relief from some of this paperwork, the incredible mountain of forms and needless bureaucracy that is heaped on you.

Some of you have had experience in trying to turn the FCC around on this. What seems to be the problem?

Ms. Brown. They don't look at us under the definition of small business, we are told.

The definition states a small business concern shall be deemed to be one which is independently owned and operated, and which is not dominant in its field of operation.

It depends on what field you put us in. We feel like it should apply.

Mr. Wyden. We are certainly going to try and turn them around on this. It is sure to be one of the recommendations of this task force, that they give some relief. The natural way to do it would be to apply this procedure used for all the other small businesses in the country. If we can get their attention, we will do it legislatively.

And I can assure you that some of us on the panel will go the legislative route and we will get their attention that way.

I have one other question, during this morning's session, a number of witnesses said that they felt more and more companies are going to bypass, we hear this continually, and they are going to do it regardless of cost.

They argued that the access charge of $6 is not going to change that. They are still going to be bypassing, so they said. All we get out of these access charges is more costs. The access charges are on top of the costs that are brought by bypass.

Do you four agree with that? If we thought that somehow that $6 was going to keep people from bypassing, we could debate it. They are going to bypass anyway. You are just going to get most costs.

Mr. Dennis. It is a double whammy, the access charge and the higher toll rates, also. I see it definitely going that way.

Mr. Keen. I think that is about right.

Mr. Wyden. That is very helpful, because I think that that assessment is one that a lot of Members of Congress are coming to. If bypass is such a bad thing, it isn't going to be stopped by any $6 access charge. We ought to be making sure we know what we are talking about as far as bypass is concerned before we go ahead with access charges on anybody or any particular new pricing system.

I want to thank all of you for excellent testimony. You have made a lot of unintelligible terms become very lucid and very clear.

And I want to congratulate you, Loretta—excuse me, Mrs. Brown, for your comments about problems of the elderly. In my district, we are seeing the development of a community fund for people who can't afford phone service anymore. Church groups are setting up phones so people can have some communications outlet.

I really commend you, Mrs. Brown, for your work. We will break now briefly and come back for our last panel on bypass. Thank you.

Mr. Wyden. The task force will come to order. Our next and last panel will be devoted to bypass. They are Brian Moir, International Communications Association; Mr. Joseph Kraemer III, Touche-Ross & Co.; Mr. E.Q. Ken Faust, BellSouth, vice president, Federal matters; and Dr. Walter Bolter, director and James McConnaughey, research manager, Bethesda Research Institute.

Gentlemen, I have to tell you that I have been eagerly awaiting this panel. We are counting on you to bring great clarity and great understanding to what is clearly the most elusive, hard to master concept in the whole telecommunications debate. So, I for one, have been eagerly awaiting your presence. I will make a prepared copy of your remarks part of the record and if you would, for the sake of time, so that we will have time for questions, try to highlight your recommendations.

Mr. Moir, why don't we begin with you?

TESTIMONY OF BRIAN R. MOIR, COUNSEL, INTERNATIONAL COMMUNICATIONS ASSOCIATION

Mr. **Moir**. Thank you, Mr. Chairman.

With your permission, I would like to have my written statement submitted for the record, and I will add a few additional points.

Mr. **Wyden**. It will be done.

Mr. **Moir**. For the record, my name is Brian R. Moir. I am a partner in the Washington, DC, law firm of Finnegan, Henderson, Farabow, Garrett & Dunner, and among others, I represent a telecommunications large users association named the International Communications Association ["ICA"]. Basically, its membership includes 500 plus representatives of business, the educational community, such as MIT, Duke, and some government agencies at the State and Federal levels. ICA is comprised of a mixture of members which cover the entire United States. ICA is the largest user group in the United States. ICA members purchase over $15 billion worth of telecommunications services annually.

The large users in this country, including ICA members, have always supported the goal of universal service and have always supported policymakers who try to make decisions which drive prices to cost. Those areas that truly are in need should be designated as areas being in need of help.

What has been going on in the bypass arena is just a small part in the long history of the telephone industry, which is going through a number of obvious changes. You have had previous hearings on this issue; you had some people talking this morning on this issue, and again this afternoon. You have some areas of the country—as one of the witnesses in the panel before us mentioned—that receive money from others. For years, those living here in Washington, DC, have helped the people in Florida to get cheap inside wiring and for a long time cheaper telephones. The main areas of the country, which we have been able to tell from our own statistical review and from phone company cost estimates filed with the Commission, seemed to be the service areas covered by PACTEL and U.S. West—basically the western part of the United States plus the BOC that owns the phone system in the State of Florida. Basically, from a geographical point, those are the areas that have been receiving most of the money.

I don't think anybody has any problem with the small rural phone companies that are in need of help being helped out. As a result of court decisions like *Execunet*, which created long-distance competition and an FCC decision which created a competitive environment in the equipment area, changes were made in the way money flowed from one company to another within the traditional telephone system. That is why some of the people that were on the panel before us here this afternoon, were talking about concerns regarding the transition and how they are going to be impacted.

Some of them were talking about bypass. That is the title of the panel this afternoon, and it is one part of the overall problem that the telephone industry is going through. The term "bypass" is new to telecommunications. Those of us who can remember back not too long ago when DOJ and AT&T went over to the Press Club on January 8, 1982 to announce the Department of Justice's and AT&T's proposal for divestiture. It was shortly after that, initially here on Capitol Hill, that people started talking about the issue in telecommunications called bypass. That is when this issue started, not before.

The original concern was that AT&T, soon to be divested of its operating companies, would bypass its divested operating companies, and go directly to its large customers. That is how the term was first used. I think to the credit of AT&T and some of the other people in Washington, the issue took on a whole new approach, the evils of user owned systems. As background, users have been tailoring their own networks for a number of years, well over 100 years.

One of today's panelists and I were in New York last week when we heard a user talk to a group of New York investors about how his company had been using dedicated telex lines since the 1880's on a dedicated basis. The purpose in doing it was not to divert revenues but rather because that was the only way they can get the quality and reliability of services that they needed. They had the local telex company put in the dedicated lines. That is from the 1880's; bypass is certainly not a new phenomena.

As far as microwave systems go, I think the first microwave system we know of started in the 1940's by an oil and gas company, again not a new phenomena. Again the reason for doing that was not cost, but because it was the only way they could get from A to B. They installed systems running along their pipelines in order to insure that the pipelines would work. It was the only way they could get the circuit to handle the traffic needs that they had. Like capacity wasn't available from the local phone companies.

I think you should look at the various definitions you are going to hear from the people speaking after me today. Some are talking about—and I heard it in the earlier panel when Louise Brown talked about EAS and WATS—non-MTS exchange carrier services. The facilities involved are all carrier facilities. You heard the gentleman from New Mexico talk about the Federal and State government using microwave facilities. I think those are only two examples we heard in the entire previous panel that involved facilities other than carrier provided facilities.

ICA did a study specifically on user provided communications systems, customer-provided, point-to-point microwave that user owns and operates or a piece of fiber between two buildings ICA didn't do it on carrier bypass because we don't have the records or resources. That is what the carrier studies are about.

I will point out that all I am talking about are customer owned and operated systems. I am not talking about common carrier provided services that have an effect on revenue flows to local phone companies.

We found that as far as customer provided systems are concerned, only 29 percent of our membership that responded of, only 2 out of 5 USDRS had any interest in owned systems. Keep in mind that these covered only a small portion of that traffic that went through USDRS overall system. Over half, about 60 percent, felt that customer provided communication systems would not provide an adequate option for most of their needs at most of their locations.

They felt that the size of their operations was not the determining factor in whether they even considered it at all. We found that actually it was the smaller members within our association that actually had a higher percentage of customer provided communications systems. Most importantly though, we found that cost was not the reason for customers putting in their own systems. The main reason was what it had been for well over 100 years, and that is the lack of services to get between the two points they needed to get to, or the lack of quality. The lack of availability and lack of quality were the two main reasons.

I think as far as cost, if the public policymakers at the State and Federal levels, don't make wise decisions, and don't have the proceedings that you are having, then we may have problems in the future.

I think that basically summarizes the comments. I know the bells on the floor of the House are ringing and I will make myself available to questions at the appropriate time.

Mr. WYDEN. The bells calling us to vote are ringing. Thank you.

[Mr. Moir's prepared statement with attachments follows:]

PREPARED STATEMENT OF BRIAN R. MOIR, COUNSEL, INTERNATIONAL COMMUNICATIONS ASSOCIATION

Mr. Chairman and members of the Special Task Force on Telephones of the Committee on Small Business, I am Brian R. Moir, a partner at the law firm of Finnegan, Henderson, Farabow, Garrett, and Dunner and counsel to the International Communications Association (ICA). ICA is the largest and most broadly based organization of telecommunications users in the United States, spending over $15 billion annually on telecommunications equipment, services and facilities. Its membership consists of approximately 550 educational, corporate, and governmental organizations from virtually all regions of the country. ICA, recognized by industry and government alike as the preeminent organization of its kind, exists for the advancement of professional and scientific knowledge in the telecommunications field. I hope my comments will be helpful to this Special Task Force during its deliberations.

It is a pleasure to be here today to discuss with you a topic which has been receiving a lot of attention recently - BYPASS. In my comments this afternoon, I will first discuss how the term "bypass" came to be used in the telecommunications industry. Next, I will discuss how various groups within the industry have come to use the term. Then, I will discuss how telecommunications users have come to understand "bypass." Finally, I will offer some suggestions on how to deal with "bypass."

I. HOW "BYPASS" CAME TO BE USED IN THE TELECOM INDUSTRY

While the term "bypass" is new to the telecommunications industry, some of the things the term refers to have been in existence for years. Bypass first became a subject of discussion within the telecommunications industry shortly after the Department of Justice and the American Telephone and Telegraph Company (AT&T) announced on January 8, 1982, their agreement to a proposed divestiture of the Bell Operating Companies (BOCs) from AT&T. A concern quickly developed that AT&T would "bypass" its soon to be divested BOCs in order to directly connect to large customers of AT&T.

This is how the term "bypass" was first used. The concern was that AT&T would no longer have the incentive to route traffic from its large customers through the BOCs once the Bell System was disolved. AT&T would seek to reduce its cost of end-to-end service to large customers by "bypassing" the BOCs and other exchange carriers. It seems that most of the recent discussion about the so-called bypass crisis has lost sight of how the term came about. Thus, different parties within the industry have now developed their own varying definitions of the term. As a consequence, one must first understand how various groups are using the term "bypass" in order to evaluate the merits of their positions.

II. HOW VARIOUS GROUPS USE THE TERM "BYPASS"

BOCs and Other Large Exchange Carriers. ICA believes that the BOCs and some other exchange telephone companies have created serious problems with regard to a meaningful discussion on bypass. These companies have often stressed that a large portion of their telecommunications revenues are derived from a relatively small percentage of their customers. If, for example, 10 percent or fewer of a local telephone company's large business customers account for 50 percent or more of its annual revenues, the inference is immediately drawn by the company that its revenue base is highly susceptible to private user bypass. Such an inference, in turn, leads the company to conclude that the "pervasiveness" of bypass may require drastic new public policies in order to avoid the alleged harm to itself and local ratepayers. In particular, it has been suggested that local exchange telephone companies be insulated from intraLATA competition so that they can deal more effectively with bypass; that private users be restricted in their use of bypass facilities; and that users be subjected to separate bypass fees, surrogate "access charges," or a requirement to compensate exchange telephone companies for the "insurance" of having regulated facilities available from a "carrier-of-last-resort."

Rural Exchange Carriers. The small rural telephone companies have also been very concerned about two types of bypass: (1) the loss of traffic through tariffed private lines provided by interexchange and large exchange carriers, and (2) loss of revenues from nontelco owned and operated systems using technologies such as microwave, digital termination systems, digital electronic message service, and satellite-based networks.

III. USERS

Recognizing that very little reliable data was widely available concerning the bypass issue, ICA decided that user input would be helpful to policy makers. Therefore, ICA conducted a survey of its membership in order to gain objective informtation that could be used by telecommunications policy makers. (A copy of the ICA survey report is attached.) Because ICA is the largest and broadest-based organization of telecommunications users in the United States, it was uniquely suited to the task. As mentioned earlier, ICA's membership numbers over 500 business, government, and education organizations, which must individually spend at least $1 million annually on telecommunications services in order to join the association. Thus, ICA members represent the bulk of all large business acquisition of domestic telecommunications facilities and services, and ICA members would be the potential prime candidates for utilization of bypass facilities.

The absence of meaningful and consistent data concerning bypass has confused, to a considerable degree, the public policy discussion of the issue. Many parties have argued that bypass by private users is now, or is likely to become, a pervasive condition that requires drastic new regulatory or statutory tools to preserve universal service. On the other hand, there are those who argue that bypass is a less significant factor in the changing telecommunications picture, such that existing regulatory approaches are sufficient to deal with any actual or potential problem.

Given the considerable confusion surrounding the bypass issue, great care has been taken by ICA to ensure the validity and usefulness of its survey results. In defining bypass, for example, ICA has sought to avoid the errors of many bypass polls, which use overly broad, often self-serving definitions. Thus, the ICA survey focuses on the existing use and future planning for customer-provided communications systems ("CPCS"). The term CPCS is meant to be generally synonymous with the phrase "customer-provided equipment" as it was used in the early years of terminal equipment interconnection. CPCS is defined to exclude intra-premises, local area network-type communications facilities, as well as bypass facilities that might be offered by another carrier in competition with the carrier providing the displaced transmission service. The exclusion of these communications systems is significant in this context.

Many earlier industry-sponsored bypass polls have contemplated that any communications system, including one that might link two or more word processors within a building, for example, should be considered bypass technology. ICA views such definitions as overly broad and thus of little value to policy makers.

As the ICA survey report shows, the bypass issue should be confined only to telecommunications services that utilize common carriers' extensive capital investments in outside plant subscriber loops and trunk equipment; it should not be intermixed with regulatory rulings that, in effect, allow customer activities which are no different than installation and use of electrical wire and conduit. The broader definition of telecommunications bypass would suggest, by analogy, that any customer electrical wiring that was not installed and serviced by the local electric utility company "bypassed" the electric distribution grid. Similarly, the inclusion of carrier-provided bypass systems in the survey would have resulted in a misleading picture of _private user_ bypass. The ICA survey results disprove the notion that _private user_ bypass is, or will become, the pervasive problem predicted by many carriers and media reports. The key conclusions from the ICA survey are as follows:

* _Utilization of customer-provided communications systems ("CPCS") is not viewed as a significant opportunity by most ICA members_. Only _twenty-nine percent_ (29%) of the survey respondents operate any CPCS at this time. Most of these organizations operate fewer than three systems, representing only a small fraction of the total common carrier circuit groups that they are likely to use. Fifty-three percent (53%)

of the respondents are considering deployment of CPCS in the future, but two-thirds (2/3) of these evaluations have not reached decisional stages requiring major economic commitments to CPCS (i.e., construction or capital budgeting).

* Sixty percent (60%) of the organizations surveyed stated that the use of CPCS would not provide an adequate option for most users at most locations. The principal reason cited was that user operations are too diverse to benefit from CPCS, reflecting the variety of telecommunications applications and decentralized management structures of many large organizations.

* Most CPCS is analogous to LATA private line services, but represents a larger capacity component than has historically been offered by carrier tariffs. The "typical" CPCS covers a distance under 8 miles; contains bandwidth of about 500 voice-grade channels, of which more than 200 are currently used; and is used principally for data, mixed voice and data, and video conferencing.

* Utilization or consideration of CPCS is not a function of the size of the respondent's annual telecommunications budget, and is not concentrated

among the larger users. The smaller the annual expenditure, however, the more likely was a CPCS to replace LATA carrier services, rather than inter-LATA offerings, or to be viewed as not replacing any common carrier tariffed service. The rate of deployment of both LATA and interLATA systems has increased in recent years, but has not exhibited markedly high growth.

* More users cited limits in the quality or availability of existing common carrier services than significant cost savings, in support of either existing or potential deployment of CPCS. The non-availability of common carrier services was a more important factor for the past deployment of CPCS than for potential, future use of such systems. However, the unprecedented service problems now being encountered by users could cause a user movement towards bypass.

* The percentage cost savings reported by most respondents may be less than common carrier rate increases either placed in effect in recent years or proposed. The upper end of the range of cost savings either realized or anticipated by users may exceed the value of carrier rate increases or proposed additives on CPCS. At the other end of the range, cost savings do not appear to have motivated deployment of CPCS,

except as the users perceived benefits from increased cost stability and certainty.

Users believe that ICA's survey provides a realistic view of the "extent and dangers" of private user bypass and demonstrates that existing and potential customer bypass is, in fact, a less significant factor in the overall telecommunications industry than often claimed.

In particular, the ICA survey exposes one of the most serious deficiencies in many bypass polls. These polls consistently base their conclusion that bypass is a major problem merely on the fact that a private user may "consider" bypassing. Of course, sound management requires that significant capital expenditures not be incurred without fully weighing the pros and cons of such a decision. Thus, it is not surprising that the ICA survey shows that an organization's mere "consideration" of bypass does not inevitably mean bypass will occur; in a typical organization, it is only when a significant capital improvement (such as a bypass system) is under construction or formally placed in the capital budget that a credible bypass situation arises. Thus, in assessing the extent of bypass, careful scrutiny must be given to the actual decision-making process in an organization with respect to capital expenditures.

The particular structure of an organization will also affect significantly an organization's bypass decision-making. For example, diverse operations and a decentralized management structure will more often than not, as a practical matter, preclude the efficient implementation of a bypass service or network by most private users at most locations.

At the same time, the analysis of the bypass issue cannot be based solely on analyses of actual or potential cost savings alleged to be realized by the user from bypass. As a practical matter, private users are very reluctant to make any decisions at all with respect to the implementation of bypass facilities because of the current unsettled telecommunications marketplace. Moreover, private users expect to receive substantial reductions in long distance rates due to the full implementation of the Commission's Access Charge Plan. The promise of these reductions will affect significantly private users' attitudes towards bypass.

Furthermore, the ICA survey shows that carriers' inability or unwillingness to provide the facilities and services required by private users has been the most significant factor encouraging bypass; it is not, as often assumed, cost savings. As the Commission is aware, service quality and availability are problems that are recently becoming more pronounced, given the BOCs' and AT&T's seeming inability to correct the unprecedented service problems now being faced by most users. The paradox is that bypass incentives may be spawned by the carriers themselves unless the BOCs and AT&T correct these service problems.

In truth, however, many users may find carrier facilities and services to be generally satisfactory for their needs, and would thus be very reluctant, except in the most extenuating circumstances, to bypass. To find evidence of this phenomenon, one need look no further than the fact that users continue to go to the BOCs and AT&T for service in record numbers despite the unprecedented service processing backlogs they encounter.

IV. Conclusion

In conclusion, the absence of meaningful and consistent data concerning "bypass" has confused public policy discussion of the Commission's Access Charge Plan to a considerable degree. The lack of reliable data has also resulted unjustifiedly in arousing fears that bypass somehow endangers the preservation of universal service. As an objective survey of ICA's membership shows, there is no bypass problem that inevitably endangers carriers or universal service.

The significance of this absence of a pervasive bypass problem in the overall telecommunications industry is clear -- implementation of cost-based pricing principles and the creation of incentives for carriers to improve the quality and reliability of the services they offer to private users should be sufficient to limit effectively any possible adverse harm that might occur from private user bypass.

Accordingly, the solution to the alleged "bypass problem" lies not in adopting drastic new regulatory policies or requirements; rather, what is required is a commitment to the timely implementation of carefully developed current policies.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
MTS and WATS Market Structure	)	CC Docket No. 78-72, Phase I

COMMENTS OF THE INTERNATIONAL COMMUNICATIONS ASSOCIATION

Pursuant to the Commission's Public Notice in the above proceeding, Notice No. 3206, released March 28, 1984, the International Communications Association ("ICA"), by its attorneys, submits the results of a survey of its membership regarding the "extent and dangers" of bypass.

Statement of Interest and Summary of Comments

ICA represents the largest, broadest-based group of users in the United States. ICA is a non-profit business league of major corporate, educational, and governmental users of telecommunications equipment, facilities, and services whose individual members spend over $1 million per year in this area. Collectively, ICA members spend over $15 billion per year. Typically, ICA members have large national and international intercity voice and data transmission networks and are not predominantly engaged in the production, sale, or rental of telecommunications equipment, facilities, or services. Representatives of ICA member companies are the communications managers of their organizations. ICA members, therefore, represent the segment of the public in the best position to know whether bypass is or will be widespread. Given this broad constituency, ICA respectfully hopes that the information it is submitting will shed considerable light on whether bypass constitutes an immediate or potential threat to universal service.

As the Commission's Notice implicitly recognizes, the absence of meaningful and consistent data concerning "bypass" has confused public policy discussion of the Commission's Access Charge Plan to a considerable degree. The lack of reliable data has also resulted unjustifiedly in arousing fears that bypass somehow endangers the preservation of universal service. Adding to the policy confusion on bypass have been the exaggerated, misleading, or simply erroneous bypass data submitted by representatives of certain carriers, which often rely on such data in support of their proposals for drastic changes in existing telecommunications policies. If that were not enough, there has been considerable confusion added to the bypass issue by many inaccurate and unsubstantiated media reports.

As an objective survey of ICA's membership shows, there is no bypass problem that endangers carriers or universal service, either now or for the forseeable future. Nor, for the same reason, are drastic changes or new directions in U.S. telecommunications policies required to deal with the alleged "bypass threat".

The ICA survey shows, among other things, that utilization of bypass facilities is not perceived as a significant opportunity by most ICA members. Indeed, only twenty-nine percent (29%) of those surveyed now use any bypass facilities; by contrast, sixty percent (60%) stated that the use of bypass facilities would not provide an adequate option for most users at most locations, and two-thirds (2/3) of those even "considering" bypass have not reached a decision stage requiring major economic commitment (i.e., construction or capital budgeting).

Equally important, the most frequent reason cited in the survey for bypass is the limit in the quality and availability of existing carrier services; it is not, as often assumed, cost savings. Bypass due to service quality and availability problems, however, may become more pronounced in the future, given the seemingly chronic inability of the Bell Operating Companies ("BOCs") and the American Telephone and Telegraph Company ("AT&T") to correct the increasing backlog of service problems faced by private users. The irony of this is that the carriers themselves may be creating incentives for bypass.

The significance of this absence of a pervasive, documented bypass problem in the overall telecommunications industry vis-a-vis initiatives already undertaken by the Commission is clear -- implementation of cost-based pricing of access to the interstate telephone network and the creation of incentives for carriers to improve the quality and reliability of the services they offer to private users should be sufficient to limit effectively any possible adverse harm that might occur from private user bypass.

Accordingly, the solution to the alleged "bypass problem" lies not in adopting drastic new regulatory policies or requirements; rather, what is required is a *continued* Commission commitment to the timely implementation of its existing, carefully developed policies.

Discussion

Background. Through a series of orders the Commission has fashioned the details of its Access Charge Plan. (See, *MTS and WATS Market Structure*, 93 F.C.C. 2d 241 (1983), *recon*., FCC 83-356, released September 21, 1983, *further recon*., FCC 84-36, released February 15, 1984.) Essentially, the Commission's salutary goal is to put into place a cost-based pricing mechanism for interstate users of the exchange network. In other words, interstate users would pay directly to the exchange carriers the costs resulting from their particular uses of exchange facilities. Both carriers and end-users would pay these access charges. The charges would be phased in over time, and vary in amount, depending on whether the interstate customer is an end user or a carrier. Separately, the Commission's Access Charge Plan would establish initially a special fund designed to provide financial support for so-called "high cost" telephone companies. The Access Charge Plan would also permit waivers of end-user access fees in some cases in order to preserve universal service.

It is the Commission's conclusion that the cost-based pricing regime brought about by its Access Charge plan would produce substantial public interest benefits through more efficient and economic use of the nation's telephone network. And, the most visible and direct benefit from the Commission's Plan would be substantial reductions in interstate long distance rates, as evidenced by the recent 6.1 percent reduction in AT&T's switched service rates ordered by the Commission through the imminent partial implementation of its Plan. (See, Memorandum Opinion and Order, FCC 84-201, released May 15, 1984 in CC Docket No. 83-1145.)

In its Further Reconsideration Order, supra, the Commission stated that it planned to develop and analyze additional information with respect to the "extent and dangers" of bypass. It explained that it had received information demonstrating that large users of interexchange services have the incentive and the means to bypass and that a "deleterious effect upon universal service" can be expected if such users elect to use bypass facilities. It further stated that it intended to use this additional information to design the access charge transition plan. (See, FCC 84-36, para. 20.)

In the interest of expediting the collection of bypass information, the Commission has issued a Public Notice, dated March 28, 1984, which solicits studies, data, and other information related to bypass from government and regulatory bodies, industry, and the general public. The Commission stated that particular emphasis would be given to those submissions which provide verifiable data on current bypass penetration, as well as cost comparisons of different technologies and the like. The ICA bypass survey report, attached hereto and summarized in the discussion that follows, is submitted to answer the questions raised by the Commission's March 28, 1984 Public Notice.

The ICA Survey. As noted, the telecommunications industry has focused substantial discussion on the issue of "bypass". Unfortunately, much of the recent regulatory, legislative, and media discussion has failed to provide a firm empirical basis for judging the extent of bypass, the reasons why use of bypass facilities may occur, or the public policy consequences of bypass.

Recognizing that only limited data were widely available concerning the bypass issue, ICA decided to conduct a survey of its membership in order to gain objective information that could be used by telecommunications policy makers. Because ICA is the largest and broadest-based organization of telecommunications users in the United States, it is uniquely suited to the task. ICA's membership numbers over 500 business, government, and educational organizations, which must individually spend at least

$1 million annually on telecommunications services in order to join the association. Thus, ICA members represent the bulk of all large business acquisition of domestic telecommunications facilities and services, and ICA members would be the potential prime candidates for utilization of bypass facilities.

As stated, the absence of meaningful and consistent data concerning bypass has confused, to a considerable degree, the public policy discussion of the issue. Many parties have argued that bypass by private users is now, or is likely to become, a pervasive condition that requires drastic new regulatory or statutory tools to preserve universal service. On the other hand, there are those who argue that bypass is a less significant factor in the changing telecommunications picture, such that existing regulatory approaches are sufficient to deal with any actual or potential problem.

ICA believes the statements made by some local exchange telephone companies have created serious problems in this regard. These companies repeatedly stress that a large portion of their telecommunications revenues are derived from a relatively small percentage of their customers. If, for example, 10 percent or fewer of a local telephone company's large business customers account for 50 percent or more of its annual revenues, the inference is immediately drawn by the company that its revenue base is highly susceptible to private user bypass. Such an inference, in turn, leads the company to conclude that the "pervasiveness" of bypass may require drastic new public policies in order to avoid the alleged harm to itself and local ratepayers. In particular, it has been suggested that local exchange telephone companies be insulated from intraLATA competition so that they can deal more effectively with bypass; that private users be restricted in their use of bypass facilities; and that users be subjected to separate bypass fees, surrogate "access charges," or a requirement to compensate exchange telephone companies for the "insurance" of having regulated facilities available from a "carrier-of-last-resort."

Given the considerable confusion surrounding the bypass issue, great care has been taken by ICA to ensure the validity and usefulness of its survey results. In defining bypass, for example, ICA has sought to avoid the errors of many other recent bypass polls, which use overly broad, often self-serving definitions. Thus, the ICA survey focuses on the existing use and future planning for customer-provided communications systems ("CPCS"). The term CPCS is meant to be generally synonymous with the phrase "customer-provided equipment" as it was used in the early years of terminal equipment interconnection. CPCS is defined to exclude intra-premises, local area network-type communications facilities, as well as bypass facilities that might be offered by another carrier in competition with the carrier providing the displaced transmission service. The exclusion of these communications systems is significant in this context.

Many earlier industry-sponsored bypass polls have contemplated that any communications system, including one that might link two or more word processors within a building, for example, should be considered bypass technology. ICA views such definitions as overly broad and thus of little value to policy makers.

As the ICA survey report shows, the bypass issue should be confined only to telecommunications services that utilize common carriers' extensive capital investments in outside plant subscriber loops and trunk equipment; it should not be intermixed with regulatory rulings that, in effect, allow customer activities which are no different than installation and use of electrical wire and conduit. The broader definition of telecommunications bypass would suggest, by analogy, that any customer electrical wiring that was not installed and serviced by the local electric utility company "bypassed" the electric distribution grid. Similarly, the inclusion of carrier-provided bypass systems in the survey would have resulted, for the reasons explained in the survey report, in a misleading picture of bypass.

The ICA survey results clearly discredit the assertion that private user bypass is, or will become, the pervasive problem predicted by many carriers and media reports. The key conclusions from the ICA survey are as follows:

* Utilization of customer-provided communications systems ("CPCS") is not viewed as a significant opportunity by most ICA members. Only twenty-nine percent (29%) of the survey respondents operate any

CPCS at this time. Most of these organizations operate fewer than three systems, representing only a small fraction of the common carrier circuit groups that they are likely to use. Fifty-three percent (53%) of the respondents are considering deployment of CPCS in the future, but two-thirds (2/3) of these evaluations have not reached decisional stages requiring major economic commitments to CPCS (i.e., construction or capital budgeting).

* Sixty percent (60%) of the organizations surveyed stated that the use of CPCS would not provide an adequate option for most users at most locations. The principal reason cited was that user operations are too diverse to benefit from CPCS, reflecting the variety of telecommunications applications and decentralized management structures of many large organizations.

* Most CPCS is analogous to LATA private line services, but represents a larger capacity component than has historically been offered by carrier tariffs. The "typical" CPCS covers a distance under 8 miles; contains bandwidth of about 500 voice-grade channels, of which more than 200 are currently used; and is used principally for data, mixed voice and data, and video conferencing.

* Utilization or consideraton of CPCS is not a function of the size of the respondent's annual telecommunications budget, and is not concentrated among the larger users. The smaller the annual expenditure, however, the more likely was a CPCS to replace LATA carrier services, rather than inter-LATA offerings, or to be viewed as not replacing any common carrier tariffed service. The rate of deployment of both LATA and interLATA systems has increased in recent years, but has not exhibited markedly high growth.

* More users cited limits in the quality or availability of existing common carrier services than significant cost savings, in support of either existing or potential deployment of CPCS. The non-availability of common carrier services was a more important factor for the past deployment of CPCS than for potential, future use of such systems. However, the increasing, unprecedented service problems being encountered by users could cause a user movement towards bypass.

* The percentage cost savings reported by most respondents may be less than common carrier rate increases either placed in effect in recent years or proposed. The upper end of the range of cost savings

> either realized or anticipated by users may exceed the value of carrier rate increases or proposed additives on CPCS. At the other end of the range, cost savings do not appear to have motivated deployment of CPCS, except as the users perceived benefits from increased cost stability and certainty.

ICA believes that its survey provides the first realistic view of the "extent and dangers" of bypass. The survey results demonstrate that existing and potential customer bypass is, in fact, a less significant factor in the overall telecommunications industry than claimed by certain carriers and media reports.

In particular, the ICA survey exposes one of the most serious deficiencies in recent industry-sponsored bypass polls. These polls consistently base their conclusion that bypass is a major problem merely on the fact that a private user may "consider" bypassing. Of course, sound management requires that all options be "considered". So, too, sound management requires that significant capital expenditures not be incurred without fully weighing the pros and cons of such a decision. Thus, it is not surprising that the ICA survey shows that an organization's mere "consideration" of bypass does not inevitably mean bypass will occur; in a typical organization, it is only when a significant capital improvement (such as a bypass system) is under construction or formally placed in the capital budget that a credible bypass situation arises. Thus, in assessing the extent of bypass, careful scrutiny must be given to the actual decision-making process in an organization with respect to capital expenditures.

The particular structure of an organization will also affect significantly an organization's bypass decision-making. For example, diverse operations and a decentralized management structure will more often than not, as a practical matter, preclude the efficient implementation of a bypass service or network by most private users at most locations.

At the same time, the analysis of the bypass issue cannot be based solely on analyses of actual or potential cost savings alleged to be realized by the user from bypass. As a practical matter, private users are very reluctant to make any decisions at all with respect to the implementation of bypass facilities because of the current unsettled telecommunications marketplace. Moreover, private users expect to receive substantial reductions in long distance rates due to the implementation of the Commission's Access Charge Plan. The promise of these reductions will affect significantly private users' attitudes towards bypass.

Furthermore, the ICA survey shows that carriers' inability or unwillingness to provide the facilities and services required by private users has been the most significant factor encouraging bypass; it is _not_, as often assumed, cost savings. As the Commission is aware, service quality and availability are problems that are recently becoming more pronounced, given the BOCs' and AT&T's seeming inability to correct the increasing, unprecedented service problems now being faced by most users.[*] The paradox is that bypass incentives may be spawned by the carriers themselves unless the BOCs and AT&T correct these service problems.

In truth, however, many users may find carrier facilities and services to be generally satisfactory for their needs, and would thus be very reluctant, except in the most extenuating circumstances, to bypass. To find evidence of this phenomenon, one need look no further than the fact that users continue to go to the BOCs and AT&T for service in record numbers despite the unprecedented service processing backlogs they encounter.

In sum, because the ICA survey results conclusively demonstrate that private user bypass is not now a pervasive or threatening problem, nor likely to be in the future, policy makers should focus their attention on actions and programs that amount to a fine-tuning of existing telecommunications policies. No new policies are required.

Conclusion

As discussed, the absence of meaningful and consistent data concerning "bypass" has confused public policy discussion of the

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[*] See March 8, 1984 letter from Jack D. Smith, Chief, Common Carrier Bureau, to AT&T and the BOCs, and the replies of the carriers dated March 22, 1984. See also AT&T's letter to the Chief, Common Carrier Bureau, dated May 17, 1984.

Commission's Access Charge Plan to a considerable degree. The lack of reliable data has also resulted unjustifiedly in arousing fears that bypass somehow endangers the preservation of universal service. Adding to the public policy confusion on bypass have been the exaggerated, misleading, or simply erroneous bypass claims and data submitted by certain carriers. So, too, the confusion has been intensified by many inaccurate or unsubstantiated media reports.

As an objective survey of ICA's membership shows, however, a "bypass problem" does not now endanger carriers or universal service; nor is there credible evidence it will do so in the forseeable future. For this reason, drastic changes or new directions in U.S. telecommunications policies are not required to deal with alleged "bypass dangers". Accordingly, ICA urges the Commission to continue its efforts towards prudent and timely implementation of its existing, carefully developed policies to improve service quality and achieve cost-based rates.

Respectfully submitted,

INTERNATIONAL COMMUNICATIONS ASSOCIATION

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May 21, 1984

ATTACHMENT

INTERNATIONAL COMMUNICATIONS ASSOCIATION

"CUSTOMER-PROVIDED COMMUNICATIONS SYSTEMS"

A report on business telecommunications users'
utilization, planning and attitudes
concerning non-common carrier transmission systems,
based upon a survey of the ICA membership.

May, 1984

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INTERNATIONAL COMMUNICATIONS ASSOCIATION

Report on
"Customer-Provided Communications Systems"

I. INTRODUCTION

As the U. S. telecommunications industry moved into the "post-divestiture era," industry, customer and regulatory groups have been confronted with a series of important public policy issues. One such issue receiving a great deal of attention in recent months is that of "bypass" of exchange carrier services and facilities. In general, the term "bypass" has been used to refer to the provision or operation of a telecommunications service or facility other than those offered by franchised or regulated telephone common carriers. The "bypass" issue has been discussed with increasing frequency in the telecommunications trade press, and has become a regulatory concern at both the state and federal levels. Unfortunately, much of the recent discussion has failed to provide a firm empirical basis for judging the extent of "bypass," the reasons why use of such facilities may occur, or the public policy consequences of the phenomenon. For example, most of the trade press accounts on the subject lack actual data concerning its extent or the underlying forces that may cause it to occur, and, indeed, are based upon loose and inconsistent definitions of the term.

Recognizing that only limited data was available concerning the "bypass" issue, the International Communications Association (ICA) decided to conduct an extensive survey of its membership in order to gain information that could be used by a variety of telecommunications stakeholders and policy matters. The survey was compiled and analyzed by ICA's regulatory policy consultants, Economics and Technology, Inc. (ETI).

ICA is the largest and most broadly-based organization of business telecommunications users in the world. ICA's international membership numbers over 500 business, institutional and government organizations, which must spend at least $1-million annually on telecommunications products and services of all types in order to qualify for membership in the Association. Thus, within the United States, ICA members represent a large share of all business acquisition of domestic telecommunications services, and ICA members should, in theory, be the prime candidates for utilization of any such "bypass" systems.

The absence of meaningful and consistent data concerning the extent of and potential for "bypass" may have confused the various public policy discussions of the issue. The central point of such discussions is whether customer "bypass" is likely to become a pervasive condition which requires new regulatory or statutory tools, or whether the use of non-carrier facilities by customers is a less significant factor in the changing telecommunications picture. In fact, the ICA survey results reported here contradict the notion that large customer bypass is, or will become, the pervasive issue suggested by some scenarios.

The ICA survey focused upon the existing use and future planning for "customer-provided communications systems" (CPCS). The term is intended to be generally synonymous with the phrase "customer-provided equipment" as it was used in the early years of terminal equipment interconnection, and is, we believe, a more appropriate generic description of what others have described as "bypass" in that it avoids the various emotional connotations of that term which, in fact, may themselves serve to prejudge many of the policy questions under debate.

The survey results demonstrate that customer bypass is, in fact, a less significant factor in the overall telecommunications industry than has been previously asserted, which can be recognized and limited by public policy initiatives that already have been undertaken by the Federal Communications Commission (FCC). The initiatives generally fall into two categories: Creating mechanisms to limit the imposition of non-economic subsidies within the pricing of common carrier telecommunications services (where subsidies required to realize the positive externalities associated with continued "universal service" are recognized as having a valid economic foundation), and creating incentives for existing telecommunications common carriers to improve the quality and reliability of the services and facilities that they offer to large business users. Because the ICA survey results demonstrate that customer bypass is not a pervasive or threatening phenomenon, policy makers should be able to focus attention on actions and programs that amount to a "fine-tuning" of the current environment, and to discount ambiguous statistics or anecdotal information concerning "bypass."

II. SUMMARY CONCLUSIONS

The ICA survey questionnaire focused specifically on transmission systems other than those that either are or might be offered by common carriers; these point-to-point systems generally are analogous to private line tariff offerings rather than switched access or intercity switched services. The survey respondents represent a broad cross-section of industries, geographic areas and levels of telecommunications expenditure. The survey results indicate that:

- Utilization of customer-provided communications systems is not viewed as a significant opportunity by most ICA members. Only 29% of the survey respondents operate CPCS at this time. Most of these organizations operate fewer than three systems, representing a small fraction of the common carrier circuit groups that they are likely to use. Fifty-three percent (53%) of the respondents are considering deployment of CPCS in the future, but two-thirds of these evaluations have not reached decision stages requiring major economic commitments to CPCS. [See pages 15-17 and 21-22].

- Sixty percent (60%) of the organizations listed reasons why use of CPCS would not provide an extensive option for most users at most locations. The principal reason cited was that user operations are too diverse to benefit from CPCS, reflecting the variety of telecommunications applications and decentralized management structure of many large companies. [See pages 23-24].

- The survey shows that CPCS are most analogous to LATA private lines, but represent a larger capacity component than has historically been offered by carrier tariffs. The "typical" CPCS covers a distance under 8 miles, contains bandwidth of about 500 voice-grade channels of which more than 200 are currently used, and is used principally for data, mixed voice and data and video conferencing. [See pages 19 and 29-31].

- Utilization or consideration of CPCS is not a function of the size of the respondent's annual telecommunications budget, and is not concentrated among the larger users. The smaller the annual expenditure, however, the more likely was a CPCS to replace LATA carrier services, rather than inter-LATA offerings, or to be viewed as not replacing any common carrier tariffed service. The rate of deployment of both LATA and inter-LATA systems has increased in recent years but has not exhibited markedly high growth. [See pages 17-18 and 20-21].

- More users cited limits in the quality or availability of existing common carrier services than cited significant cost savings in support of either existing or potential deployment of CPCS. The non-availability of common carrier services was a more important factor for the past deployment of CPCS than for potential, future use of such systems. [See pages 27-29].

- The percentage cost savings reported by most respondents is less than some common carrier rate increases either proposed or placed in effect in recent years. The upper end of the range of cost savings either realized or anticipated by users may exceed the value of rate increases or proposed additives on CPCS; at the other end of the range, cost savings do not appear to have motivated deployment of CPCS, except as the users perceived benefits from increased cost stability and certainty. [See pages 32-34].

III. THE NATURE OF THE SURVEY

The ICA survey was undertaken by means of a 10-page questionnaire which was mailed on March 15, 1984, to all ICA voting members, i.e., the one person designated within each member organization to be the lead representative to ICA. The ICA membership consists of over 500 organizations, and each received a copy of the questionnaire; however, only about 470 of the member organizations qualify as the base population of the survey, because the remaining members are located outside the United States and utilize few domestic U. S. telecommunications resources. This report reflects data compiled by ETI from 187 survey responses received through May 7, 1984. The respondents were required to consider between 88 and 175 itemized answers in order to ascertain the applicability of, and to complete, portions of the questionnaire. The response rate to this complex questionnaire is excellent and exceeds the response rate to a less complex survey of the ICA membership in 1978.

The draft questionnaire was reviewed with a group of ICA members and tested through them. The intent of the survey design was to conform the survey questions as closely as possible to the practical realities of corporate communications management. The survey sought to avoid the ambiguous results that might be produced by general questions such as, "are you considering bypass?". Thus, the survey questions reported here focused upon details of user operations and decision-making. Such practical factors include, first, the various stages that would occur during the decision to deploy, or not to deploy, a customer-provided communications system. These range from simple investigation of the economics of such a strategy to actual construction.

The financial requirement which would govern the user's decision-making represents another variable. A corporation's target internal rate of return for capital investments, such as those involved in the purchase or long-term lease of a customer-provided communications system, ultimately determines whether the user would acquire a non-common carrier system or continue to utilize a carrier transmission service under monthly rates or other short-term payments. Monthly rental rates are corporate expense items, rather than capital budget items.*

A third factor is the variety of different telecommunications applications which may exist among different divisions or operating units of a single large corporation. A company that is viewed as a single entity for financial purposes may consist of highly diverse and unrelated operating units. Decentralized management structures, organized into discrete "profit centers," may make it more difficult for the parent corporation user to aggregate different telecommunications applications, in a manner that would improve the potential efficiency of a combined customer-provided communications system.

The survey also was designed within certain limitations, in order to develop the most workable and consistent results possible. First, the relevant group of transmission systems were defined as "customer-provided communications systems," as follows:

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* The survey teaches nothing significant about this particular factor's correlation to other responses; these results are not reported. Responses to this question varied widely; the result may be attributed to the question's failure to specify whether pre- or post-tax rates of return should be provided. This report, however, includes responses to all other questions.

> In this survey, we use the term "customer-provided communications systems" or "transmission systems" to mean any system that is not provided by a common carrier, i.e., a system that is owned or leased by a company or shared with another firm that is not principally engaged in providing any telecommunications service or equipment for sale or lease to others.
>
> This term is meant to exclude customer-provided Local Area Networks (LANs) that exist wholly within one building or within contiguous buildings occupied by the same company.

The exclusion of intra-premises or intra-building communications systems is significant in this context, because several ICA members have reported during the preparation of the survey that other polls in which they were asked to participate contemplated that any communications system, including one that might link two or more word processors within the same building, for example, should be considered as "bypass" technology. Such definitions of "bypass" only serve to confuse issues related to the pricing of local, access or intercity services with those dealing with internal wiring that is undertaken by customers.

Using "customer-provided communications system" as the basic definition in the survey also effectively excluded any "bypass" system that might be offered by another common carrier in competition with the carrier providing the displaced transmission service. While some observers have indicated that such common carrier "bypass" may well occur, the ICA survey definition was limited in this manner for several reasons. First, during the preparation of the questionnaire, the preliminary test discussions with ICA members indicated that no company had firm information concerning the intent of an inter-LATA carrier to bypass the facilities of an intra-LATA carrier. Information in this area appears to be largely anecdotal or conjectural at this time.

The survey questionnaire did test whether the ICA members were prepared to utilize new common carrier-provided systems that could bypass the facilities of existing suppliers of telecommunications transmission, through a question concerning planned utilization of "digital electronic message services (DEMS)." FCC actions have only recently opened these systems to potential common carrier activities that might bypass traditional telephone facilities. The survey results indicate that offerings of DEMS have not displaced whatever utilization of CPCS is otherwise indicated by the respondents:

> . . . Digital Electronic Message Service systems (DEMS), also known as Digital Termination Systems (DTS) . . . are to be offered by one or more common carriers under recent FCC licensing procedures. With respect to the offering of these systems, either on a local or "extended" (i.e., intercity) basis, have you:
>
> (check as many lines, except the last one, as apply to your company today.)

BEEN CONTACTED BY ONE OR MORE POTENTIAL VENDORS	31 %
EVALUATED THE FINANCIAL OR TECHNICAL RESULTS EXPECTED FROM INSTALLING DEMS	9 %
PLACED AN ORDER FOR DESIGN OR INSTALLATION OF DEMS	1 %
NONE OF THE ABOVE	66 %

Over 90% of all respondents to the survey answered this question.

The survey did not embrace common carrier "bypass," because the suppliers that might decide to offer such parallel facilities are likely to fall under state or federal regulatory scrutiny that is characteristic of common carriage.

Thus, any regulatory policies that might be applied in such circumstances already exist within a legal framework. Finally, ICA realized that the most valuable contribution that it could add to public policy discussions in this area would focus specifically on the actions, plans and viewpoints of its own membership - the largest American non-carrier users of telecommunications.

The survey also defined what constituted a customer-provided "system:"

> When we refer to point-to-point systems, we mean every discrete customer-provided communications system; such a system may have multiple drops between its principal end locations. Except where noted in question no. 7, the bandwidth capacity of the system is not relevant.

This definition accords with the preliminary discussions involving ICA members indicating that the "system" definition accorded with the common understanding of corporate communications managers, and that all customer-provided systems consisted of some type of point-to-point, dedicated transmission facilities.

Finally, the survey asked respondents to classify systems and expenditures as "inter-LATA" or "intra-LATA" in order to recognize the new territorial structure that resulted from the AT&T divestiture and the business separation between Bell Operating Companies and AT&T. In addition to explaining the new distinction, the questionnaire included a map of the United States showing each of the LATA boundaries approved by the AT&T antitrust court.

IV. PROFILE OF SURVEY RESPONDENTS

The survey questionnaires submitted by the ICA respondents represent a broad profile of American business, institutional and government telecommunications users. This is demonstrated by classification of the respondents according to industry segment, geographical distribution and annual outlays for telecommunications services and products:

DISTRIBUTION OF RESPONDENTS BY INDUSTRY CLASSIFICATION

AEROSPACE	7	METALS AND MINING	5
AIRLINES	3	NATURAL RESOURCES	7
APPLIANCES		OFFICE EQ., COMPUTERS	5
AUTOMOTIVE	5	OIL SERVICE AND SUPPLY	1
BANKS AND BANK HOLDING	19	PAPER	4
BEVERAGES		PERSONAL CARE PRODUCTS	1
BUILDING MATERIALS	1	PUBLISHING	2
CHEMICALS	12	RADIO/TV BROADCASTING	2
CONGLOMERATES	12	RAILROADS	2
CONTAINERS		REAL ESTATE AND HOUSING	1
DRUGS	7	RETAILING - FOOD	2
ELECTRICAL/ELECTRONICS	8	RETAIL - NONFOOD	6
FINANCIAL - NON-BANK	7	SAVINGS AND LOAN	
FOOD AND LODGING	1	SERVICE INDUSTRIES	2
FOOD PROCESSING	2	SERVICE ORGANIZATIONS	1
GENERAL MACHINERY		STEEL	2
GOVERNMENT, NATIONAL		SPECIAL MACHINERY	2
GOVERNMENT, STATE	1	TEXTILES AND APPAREL	5
HOSPITALS		TIRE AND RUBBER	1
INSTRUMENTS/OPTICAL	3	TOBACCO	
INSURANCE	13	TRUCKING	2
LEISURE TIME INDUSTRIES	1	UNIVERSITIES	7
MANUFACTURING, MISC.	21	UTILITIES	6
OTHER	15		

The survey asked for the principal states in which the user conducted business:

TOP FIVE STATES IN WHICH RESPONDENTS DO BUSINESS

CALIFORNIA	59%	NORTH CAROLINA	11%
NEW YORK	56%	CONNECTICUT	10%
TEXAS	45%	MICHIGAN	10%
ILLINOIS	37%	LOUISIANA	8%
PENNSYLVANIA	23%	INDIANA	7%
FLORIDA	23%	ALABAMA	7%
NEW JERSEY	21%	MARYLAND	7%
OHIO	18%	WISCONSIN	7%
GEORGIA	18%	VIRGINIA	7%
MASSACHUSETTS	14%	MISSOURI	6%

The basic profile of the respondents' domestic telecommunications expenditure is closely correlated to information that ICA obtained in a similar survey conducted in 1978:

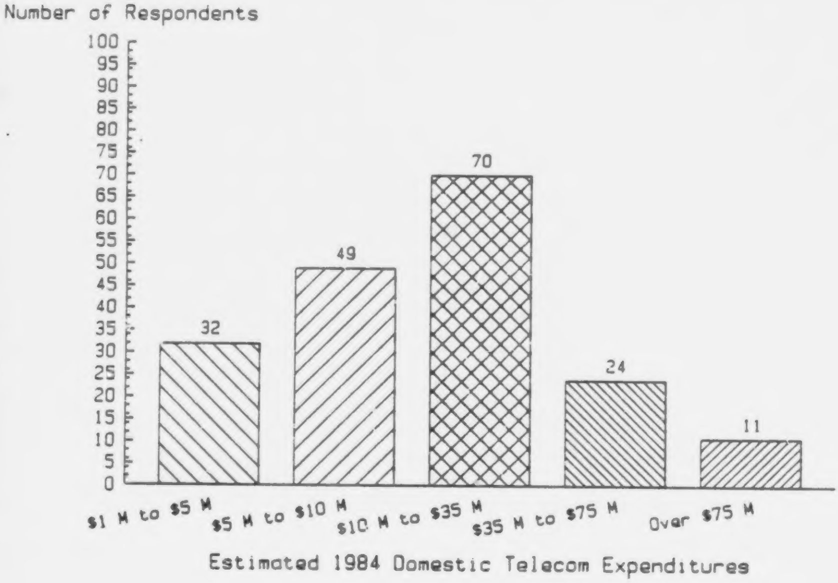
DISTRIBUTION OF CORPORATE TELECOMMUNICATIONS EXPENDITURE

	1984	1978
VOICE	73%	70%
DATA	23%	21%
OTHER	4%	9%

It is useful to note that the relative shares of voice and data traffic have remained stable during the six-year period; some trade press discussions of bypass appear to suggest that a marked increase in the growth rate of data communications explains the rapid growth in customer-provided systems. Neither growth assumption may be accurate.

Figure 1 shows the distribution of the respondents by the value of their individual annual expenditure on telecommunications services. A number of the other survey responses were distributed according to the size classifications shown on Figure 1, in order to determine whether the total size of a firm's expenditure affected either its evaluation or utilization of CPCS; the report notes below where the analyses produced significant information.

FIGURE 1
Respondents Estimated 1984 Telecom Expenditures



V. THE EXTENT OF CUSTOMER-PROVIDED COMMUNICATIONS SYSTEMS

The survey questionnaire was designed to group respondents into two broad categories of users who already operate customer-provided communications systems (CPCS), which are referred to as "existing systems," and users who may have entered some stage of consideration of a CPCS that is not in operation, referred to as "potential systems." Potential systems can, in some cases, be further divided into CPCS that are likely to be constructed and those with a lower probability of actual deployment at this time. Potential systems under consideration were grouped into four categories of activity involving (1) financial and economic evaluations of future CPCS, (2) engineering analyses,* (3) inclusion of CPCS in corporate capital budgets, and (4) actual construction of a CPCS.

The higher probability that a potential CPCS will be installed, in fact, is associated with the latter two activities. Clearly, actual construction indicates that a potential system will be placed in service. Moreover, including a potential system in a user's capital budget should be viewed as a threshold test of significant probability that a system will be deployed. The commitment required to undertake either financial or engineering analyses of a CPCS is significantly less than the commitment required to place such a system in the organization's budget. Numerous financial or engineering analyses may be made of many changes or additions to a user's telecommunications systems in the ordinary course of business. However, the survey results demonstrate that capital budgeting decisions are more complicated:

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* Engineering analyses refer to activities such as radio frequency coordination, site or right-of-way evaluation and other steps necessary to design a CPCS.

> Within your company, do you believe that procedures for obtaining a budget commitment for a system involving capital investment is more complicated or involves more company personnel than the procedures used for budget increases relating to annual expense increases?

Fully 82% of the ICA respondents answered "yes" to this question, while 16% answered "no." It appears correct to assume that some of the potential CPCS now in the financial or engineering stage of consideration may not be deployed, either because the results of the current analyses would not prove to be favorable or because marginally-attractive projects would not survive the competition for scarce capital funds within the organization's overall capital budget. Nevertheless, as discussed below, changes in the delicate economic and qualitative tradeoffs that constitute the decision to deploy a CPCS could change the degree of probability associated with potential CPCS systems.

Existing systems

The respondents indicated that existing CPCS account for only a small fraction of existing telecommunications demand:

> In the aggregate, estimate what percentage of your company's usage of United States domestic transmission services of all types is carried by:

INTER-LATA COMMON CARRIERS	62 %
INTRA-LATA COMMON CARRIERS	33 %
CUSTOMER-PROVIDED SYSTEMS	4 %

The results for LATA and inter-LATA traffic are generally correlated with the results of the 1978 ICA member survey (in which, of course, the utilization was not disaggregated by the new LATA classifications). In 1978, about 55% of user demand was classified as "interstate" and 40% was classified as "intrastate." The percentage shifts in the 1984 survey may be associated with traffic that is intrastate but inter-LATA. Twenty-nine percent (29%) of the respondents submitted a non-zero response to the third alternative listed above; in these responses the total usage of CPCS rose to an average of less than 15%.

The 15% share of CPCS users' telecommunications traffic carried by these systems somewhat overstates the relative penetration of such systems in the overall telecommunications networks of the respondents. The ICA members were asked to detail the number of discrete transmission systems that they operate. This specific question did not differentiate between existing and potential systems. The median number of point-to-point systems reported was 2.4; the average was 3.1.* This number of point-to-point systems is likely to represent an extremely small percentage of the local access and dedicated lines employed by any telecommunications user with an annual budget in excess of one million dollars. Thus, while the share of telecommunications traffic carried on the systems of the 29% of ICA members who employ such systems is about 15% of their total usage, the number of common carrier circuits that would be employed for this traffic (assuming adequate offerings were both available and cost-effective) is a much smaller proportion of the users' total demand.

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* The question allowed the respondents to list a number of point-to-point CPCS up to 10; only 2 respondents (3%) listed nine or more systems.

The relative distribution of the respondents' usage of inter- or intra-LATA common carrier services did not vary significantly by the value of the organization's annual telecommunications expenditures, within the categories illustrated in Figure 1. Likewise, expenditures did not affect the distribution of CPCS utilization among all respondents, because, as noted, more than 70% reported no CPCS. However, when CPCS users reported what type of common carrier services were replaced by existing CPCS, the value of telecommunications expenditure clearly affected this distribution. These respondents categorized the common carrier services likely to have been replaced as follows:

> With respect to the customer-provided systems your company now operates, estimate the percentage of point-to-point systems that serve the following replacement functions, if any, compared to services provided by a telephone common carrier.

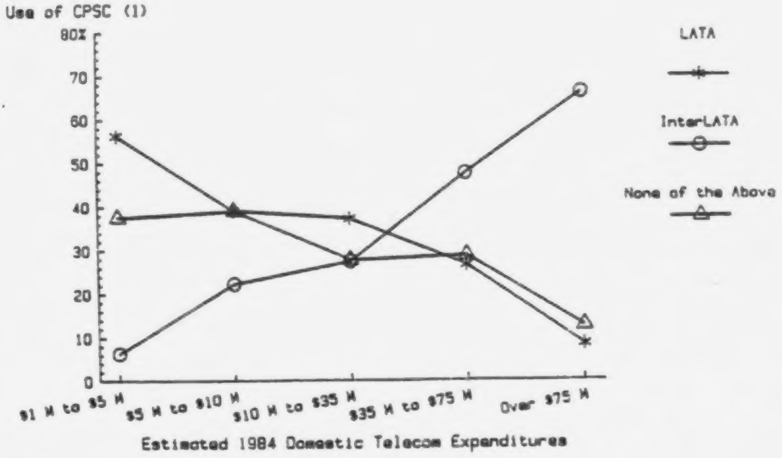
REPLACES PRIMARILY LOCAL SERVICES	37 %
REPLACES PRIMARILY INTER-LATA SERVICES	33 %
NONE OF THE ABOVE	30 %

In other words, utilization of existing CPCS is not a phenomenon that can be associated particularly with replacement of either local or toll common carrier services. Almost one-third of the responses indicated "none of the above" to this question, and 18% of the respondents checked only this choice. This is an indication that the non-availability of service or other qualitative factors influence use of CPCS.

A large majority of the common carrier services reported to be replaced by existing CPCS were private line services; "dial-up" switched services accounted for less than 26% of the replaced common carrier services where this differentiation was reported. The results thus confirmed the fact that CPCS largely are analogous to common carrier private line services.

This question produced the most marked differences among respondents classified by size of telecommunications expenditure. Figure 2 illustrates the substantial variations reported. The degree to which local common carrier offerings were replaced varied inversely with the size of the organization's telecommunications budget; smaller users reported far more local service replacement than larger users. Smaller users also were more likely to answer that an existing CPCS replaced neither local nor inter-LATA common carrier services. Conversely, the larger the user's outlay, the more likely it was to report that an inter-LATA common carrier offering was replaced.

FIGURE 2
Size of Expenditure Affects Use of CPCS (1)



(1) Customer Provided Communications Systems

The higher relative frequency with which smaller users report that CPCS either replaces intra-LATA common carrier services or provides communications functions that replace no common carrier service may be attributed to the fact that smaller users are more likely to have most of their telecommunications requirement concentrated in a few locations. Larger users' requirements are more dispersed nationally and, hence, utilize relatively more inter-LATA facilities.

However, the concentration of responses reporting either that a LATA carrier's services were replaced - or that, in fact, the existing CPCS is not viewed as a substitute for services available from a LATA carrier - shows a correlation between installation of existing CPCS and the pricing and service quality offered by LATA carriers. This condition is confirmed by the relative distribution of the overall distances of discrete point-to-point CPCS reported by the survey respondents:

MILEAGE DISTRIBUTION OF CPCS

UP TO 16 MILES	55 %
16.1 TO 200 MILES	24 %
OVER 200 MILES	22 %

Most transmission routes spanning 16 miles or less are likely to fall within a single LATA, and thus typically have been provided by a single common carrier rather than by a partnership of carriers, such as the previous affiliation between AT&T Long Lines and the Bell Operating Companies. Thus, some analysis of the "bypass" issue might focus on the conditions surrounding relatively short-haul LATA common carrier transmission services.

Conditions within the scope of the LATA common carriers' operations or regulatory environment must have provided the motives for utilization of CPCS; other aspects of the ICA survey concerning service quality, discussed below, confirm this condition. LATA carrier private line services may be perceived as more expensive than CPCS alternatives by these users, particularly where pricing options for multiple channel services that recognize scale-related unit cost reductions are not offered by the carrier. The LATA carriers also may have been unable to offer the technology and facilities that CPCS users require, such as high-capacity digital circuits or transmission facilities that offer specialized routing, signalling and supervisory control functions. Many of the carrier-initiated tariffs and services in these areas fall within state regulation. Policies seeking to eliminate pricing and service distortions, which may artifically stimulate deployment of CPCS, likely will require consistent execution at both the state and federal government levels in order to succeed.

The survey also determined the vintages of existing systems where respondents were able to estimate the time of installation:

> With respect to any customer-provided systems that your company now operates, indicate the time frame in which it was first placed in service:

INSTALLED PRIOR TO 1978	30 %
INSTALLED 1978-1982	36 %
INSTALLED SINCE 1982	34 %

While a somewhat higher rate of deployment of CPCS may be inferred from the percentage installed since 1982, the results indicate that utilization of CPCS is neither a recent phenomenon nor an especially explosive one. As one should expect, the technology mix of existing systems changed over time. Fixed microwave systems declined as a percentage of all reported systems from 70% to 46%, while new technology fiber optics increased in share to 18% in the latter period. The conclusion that the growth of CPCS is not now surging is generally confirmed by the analysis of survey results concerning users' planning for potential new CPCS.

Potential systems

Fifty-three percent (53%) of the survey respondents reported that they were in some stage of evaluating potential CPCS. These respondents included both organizations that utilize existing CPCS and those that do not; overall, however, the respondents to this question indicated that their evaluations were concentrated in the earlier stages of the decisional processes discussed above:

> With respect to customer-provided systems that you may have under consideration, what is the status of your company's plans at the present time (you may check more than one response)?:*

SYSTEMS BEING EVALUATED FOR FINANCIAL EFFECTS	43 %
SYSTEMS BEING ENGINEERED	22 %
SYSTEMS INCLUDED IN CURRENT CAPITAL BUDGETS	24 %
SYSTEMS UNDER CONSTRUCTION	11 %

The 65% to 35% ratio between the first two responses, denoting preliminary planning, and the latter two, denoting more formal commitment to CPCS remained quite consistent when distributed according to the respondents' classification by size of expenditure (Figure 1). Thus, the survey suggests that, at this time, users are not committed to a massive increase in the use of CPCS, and that no particular subgroup of the respondents is more or less likely to deploy a potential system, among the 53% who are considering such an option.

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* Respondents also could check "no system being evaluated," in which case the participant was directed to other questions; such responses are excluded from the percentage values shown in this table.

All of the respondents who are considering potential systems also indicated the technologies that might be used for such systems. These answers also may show that most of the users lack final plans to deploy CPCS. The mix of potential technologies paralleled those reported for existing systems of the most recent vintage (see above). Almost all respondents were evaluating private microwave systems, approximately one-third checked fiber optics technologies and one-fourth listed dedicated satellite earth stations. Fewer than 20% specified coaxial cable or cable-TV facilities as a potential medium subject to evaluation.

However, this question allowed the participants to check as many different technologies as they wished. Fifty-three percent (53%) checked two or more technologies, while 30% indicated three or more types of transmission. Considering that most users of existing CPCS operate less than three systems today, the number of different technologies reportedly being evaluated suggests, again, that most companies which are even considering potential CPCS are not committed to one technology or to actual installation of one technology.

The respondents also demonstrated that development of potential CPCS is not likely to reflect sharing of such systems among several business users. The survey tested whether the evaluation of potential systems might be related to the economies or improved utilization of CPCS that could be realized by inter-company sharing, with these results:

> What are your company's current plans to utilize a customer-provided transmission for telecommunications between your company and another, unaffiliated, non-telecommunications company? (check one)

WE HAVE NO SUCH PLANS	88 %
WE EXPECT TO HAVE SUCH PLANS:	
WITH ONE OTHER COMPANY	5 %
WITH TWO	0
WITH MORE THAN TWO	8 %

The percentage of respondents who reported "more than two" potential sharers indicates that some users may find economic advantages in sharing arrangements where a number of participants may utilize the same system. However, the vastly larger number of organizations without such plans is far more significant. Seventy-seven percent (77%) of all respondents answered this question.

The deployment of CPCS can best be described as being in a state of flux. Only 29% of the large, sophisticated telecommunications users responding to the survey operate CPCS today; 53% are considering the possibility but nearly two-thirds of these plans have not advanced to the stages that require significant economic commitments. About 60% of all of the respondents, including organizations that may operate CPCS now or in the future, believe that they are not likely candidates for extensive utilization of such systems:

If you have noted that your company is not evaluating any customer-provided transmission system at the present time, please check the reason(s) why. If you noted that you do have or plan to have a customer-provided system, please answer this question only for locations where you now have no plans for such a system:

(check as many as apply)

OUR COMPANY IS TOO SMALL TO USE SUCH A SYSTEM	16 %
OUR COMPANY'S OPERATIONS ARE TOO DIVERSE TO USE IT	37 %
WE DO NOT BELIEVE THAT SUCH A SYSTEM WOULD BE COST EFFECTIVE	45 %
WE ARE SATISFIED WITH THE QUALITY AND RELIABILITY OF COMMON CARRIER SERVICES	24 %
WE HAVE NOT BEEN APPROACHED BY VENDORS OF SUCH SYSTEMS	13 %
OTHER	17 %

Most of these responses were not correlated with the size of the user, except that no organization with an annual telecommunications bill in excess of $35-million checked either "too small" or "have not been approached." The share of the respondents who selected "too diverse" confirms the ICA members' belief, discussed in Section III, that the individual units or profit centers within a large corporation may have sufficiently different needs and economic incentives so as to limit intra-company shared use of a CPCS. The survey as a whole finds no correlation between company size and CPCS use, and the diversity and decentralized management of many organizations simply underscores that finding.

In the final analysis, however, user decisions to install the potential CPCS rest on factors that remain unsettled at this time. Conditions which influence the relative cost savings that users perceive to be realized by a

CPCS, as well as conditions that affect the quality and availability of comparable common carrier services, will determine whether the large majority of respondents who have neither budgeted for nor commenced construction of any CPCS would deploy potential systems. The cost and qualitative factors that will influence these decisions are detailed in the next two sections of the report.

VI. SERVICE QUALITY AND SERVICE AVAILABILITY FACTORS

The ICA survey results show that utilization of customer-provided transmission systems often results from considerations other than the direct economic tradeoff between the cost of such a system and the perceived price of common carrier-provided alternatives. Such alternatives, in fact, may not exist, although non-availability of comparable service from telecommunications carriers was cited more often as a reason why existing user systems were installed in the past than as the principal rationale for potential systems under consideration.

The survey used judgmental questions to ascertain ICA members' beliefs about service quality and availability issues. This approach was selected for several reasons. First, precise definitions of "quality," "reliability," and "availability" would be difficult to formulate in a manner with which all respondents would agree. These concepts embrace not only the technical parameters within which a common carrier transmission service might operate but also the time required for a carrier to install, repair or modify its service. Critical business communications functions may be harmed if the user experiences delays in the restoration of a service or if a common carrier's personnel must undertake repeated attempts to correct a fault. These problems are multiplied when more than one carrier, e.g., an access carrier and an inter-LATA carrier, are involved in providing a single system and are unable to agree concerning the location and responsibility for a trouble condition. Recent reports concerning significant increases in the order processing and installation backlogs for common carrier services illustrate the reality of the problem and the detrimental effects that users may experience from it.* Users perceive that these conditions can be reduced or eliminated by utilization of a customer-provided system.

Second, the population to which the survey questionnaire was directed consists of, by definition, the managers of the largest and most sophistocated user communications systems. As such, the respondents are likely to have well-established concepts of service quality, in all of the parameters mentioned above, and to have specific dealings with common carrier representatives which ensures that they are well informed about the carrier's service offerings. While individual respondents may possess somewhat differing views of these qualitative issues, the aggregate responses from the entire population of professional communications managers should be viewed as highly accurate.

Essentially identical questions were asked of users who reported existing CPCS now in operation, and those who indicated that such a system was in some state of planning, with results as follows:

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* See, for example, Letters from the Chief, FCC Common Carrier Bureau, dated March 8, 1984, requesting information from AT&T and the Bell Operating Companies concerning reported delays and other problems involving business services.

Existing Systems

Do you agree or disagree with the following statement concerning any customer-provided systems that your company has in operation at the present time:

> "At the location(s) where we utilize a customer-provided transmission system, the company has realized improvements in service quality and/or reliability compared to what we believe that a common carrier could have provided at the time the system was planned."

AGREE STRONGLY	57%
AGREE	32%
DISAGREE	11%

Potential Systems

Do you agree or disagree with the following statement concerning any customer-provided systems that your company has evaluated financially and plans to install, or is now installing?

> "We expect to realize improvements in service quality and/or reliability compared to the current level available from the common carrier(s) at the location(s) involved?"

AGREE STRONGLY	45%
AGREE	45%
DISAGREE	11%

The historic time frame of existing systems and the lead time associated with potential systems now likely to be installed, covered by these questions, indicates that the responses likely do not reflect the most recently reported common carrier service problems noted above.

With respect to service availability, the survey shows that the perceived non-availability of service from a common carrier was a substantially more important consideration historically than it is with respect to potential systems, but that non-availability remains a factor:

Existing Systems

> Considering each point-to-point customer-provided transmission system that your company now operates, what percentage of the systems are used for telecommunications applications that you believe were not offered by the telephone common carrier(s) in the location(s) served by the system, at the time it was installed?

The average percent of non-availability among the respondents to this question was 42%. When only the non-zero responses were tabulated, this value increased to 64%.

Potential Systems

> Considering each point-to-point customer-provided transmission system that your company definitely plans to install, what percentage of the systems will be used for telecommunications applications that you believe are not offered by the telephone common carrier(s) in the location(s) to be served by the system?

The average percent of non-availability among the respondents to this question was 18% - considerably below the response for existing systems. When only the non-zero responses were tabulated, this value increased to 39%.

The respondents' judgments about the quality, reliability or non-availability of common carrier service alternatives are highlighted by characteristics of the CPCS that are either used today or planned for deployment. The average CPCS appears to consist of a high-capacity transmission system; respondents reported that CPCS utilization amounted to about 220 voice-grade equivalent channels in-use per system, with an average potential capacity of somewhat less than 500 voice channels. This represents a substantial capacity for a single user to deploy within a point-to-point CPCS. When this capacity is considered in conjunction with the 2.4 systems used by the median survey repondent, it is apparent that service quality and availability comparisons with respect to common carrier services are focused on a small number of high capacity intra-user transmission links.

The average voice-equivalent capacity reported here is subject to some qualifications. A relatively small number of users provided usable answers to this portion of the survey. Additionally, the calculation of voice-grade equivalent channels includes all applications of the CPCS. The average value reported here includes, for example, the substantial bandwidth required for intra-company video conferencing links (which are not subdivided into voice grade channels). Almost 12% of the total CPCS applications reported by the users involved such video conferencing. Likewise, the simple expression of voice-grade channel equivalency fails to differentiate the systems used for wider bandwidth data transmission or for different combinations of voice and data transmission. Some 54% of the CPCS applications were classified in this category, while only 20% of the responses indicated that CPCS were used only for voice traffic.

Nevertheless, using the voice-grade equivalency as a convenient, if approximate, measure of CPCS capacity, it is clear that the availability or quality of single-channel common carrier offerings would have less impact on a user's CPCS deployment decision than would the conditions - including the price - perceived for higher-capacity, digital carrier services similar to the CPCS. Within this realm, the utilization of CPCS may not be classified as either "economic" or "uneconomic" but rather as evidence that common carrier transmission services have failed to address each and every market segment. Recently, many telephone companies either have begun to offer, or have substantially expanded the availability of, high-capacity 1.544 Mbps digital lines - actions which support this view. As noted below, the cost savings associated with CPCS are sometimes significant but often are not large. Thus, the conclusion that service quality and availability have important influences on CPCS utilization appears quite sound.

VII. COST FACTORS AFFECTING UTILIZATION OF CPCS

The survey asked users of existing CPCS to estimate the cost savings realized from these systems, and requested users of potential systems to express estimates of the anticipated cost savings that might result from actual deployment. Possible cost savings were grouped into ten percentiles; this report has aggregated the responses in order to eliminate differences in individual estimates that might occur within judgments of this nature. The following table shows the average of all responses to each question* and the average of a defined subcategory. With respect to existing systems, the subcategory labelled "concentrated utilization" refers to the group of responses which indicated a relatively high proportion of CPCS replacing either common carrier services within LATAs or inter-LATA services. The "advanced status" subcategory, within the responses covering potential systems, targets the users who reported either that potential systems were under construction or that funding for such systems was included in current capital budgets.

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* The shares of responses selecting a particular savings estimate are based upon a population that excludes "do not know" answers, whereas the percentages of actual "do not know" answers includes all responses in a given category.

ESTIMATED COST SAVINGS RELATIVE TO COMMON CARRIER ALTERNATIVES

Existing LATA Systems

	All Respondents	Concentrated Utilization
MORE THAN 50% SAVINGS	42%	46%
MORE THAN 30% SAVINGS	56%	63%
LESS THAN 10% OR NONE	21%	8%
DO NOT KNOW	22%	11%

Existing Inter-LATA systems

	All Respondents	Concentrated Utilization
MORE THAN 50% SAVINGS	16%	30%
MORE THAN 30% SAVINGS	39%	60%
LESS THAN 10% OR NONE	31%	5%
DO NOT KNOW	22%	6%

Potential LATA Systems

	All Respondents	Advanced Status
MORE THAN 50% SAVINGS	18%	18%
MORE THAN 30% SAVINGS	43%	42%
LESS THAN 10% OR NONE	16%	20%
DO NOT KNOW	9%	4%

Potential Inter-LATA Systems

	All Respondents	Advanced Status
MORE THAN 50% SAVINGS	10%	12%
MORE THAN 30% SAVINGS	26%	21%
LESS THAN 10% OR NONE	32%	33%
DO NOT KNOW	17%	8%

The results reflect reasonable expectations. For example, users with concentrated utilization of either intra-LATA or inter-LATA CPCS report higher cost savings that the entire population of respondents, as would be expected for each target group's decision to deploy relatively more CPCS in either area.

The manner in which the cost savings data was reported in the survey does not allow the percentage values to be converted into absolute dollar amounts. Collecting the actual costs of existing or potential CPCS, considering the variety of transmission media, route distances and telecommunications applications that might be involved in individual systems, would have been extremely difficult. Consequently, it would be inappropriate to attempt to relate the results displayed above to the concepts of "economic" and "uneconomic bypass." Users who have realized or who anticipate relatively low cost savings, or no savings at all, nevertheless must be engaging in rational economic decisions concerning the utilization of a CPCS. To a large measure, these users' decisions must be driven by factors involving the quality or availability of alternative services from common carriers, and such factors also influence decisions of users who do report significant cost savings.

However, important conclusions about the cost-related economics of CPCS can be drawn from the results. First, more users have either realized or anticipate higher cost savings from LATA systems than from inter-LATA systems. As noted above, LATA systems are more likely to compare to services offered by a single common carrier, usually the local exchange company, while inter-LATA CPCS are more comparable to services provided both by local and intercity carriers. As with the distribution of respondents who reported either that LATA services were replaced by CPCS or that, in fact, CPCS offered unique, non-replacing facilities compared to LATA carriers, it appears that CPCS utilization frequently depends on pricing and service conditions that are within the control of local companies. Conversely, CPCS utilization is related less to the prices, services or cost savings associated with common carrier offerings that span inter-LATA or interstate boundaries.

Second, the cost savings margins reported by the ICA members are not substantially larger - and may be smaller - than the percentage rate increases which have been applied in recent years to the common carrier private line services, which are most comparable to point-to-point CPCS. Recent increases in intrastate or short-haul interstate-rated private line circuits may cause increases in a user's expenditures for common carrier services which exceed the cost savings ranges reported above. Thus, the cost savings expectations of users may reflect a degree of price and cost stability in the technologies and equipment used for CPCS, while they perceive common carrier offerings to continue to escalate in price (and, as well, perceive inferior quality or reliability).

The cost factors identified by the survey results may illustrate the boundaries of economic policies toward CPCS. Policies that seek to limit economically inefficient deployment of CPCS should ensure that common carriers have incentives to achieve both cost-based rates and a level of costs that reflects increased efficiency in the provision of their services. Such incentives may be emerging today as common carriers face the possibility of users deploying CPCS. A narrow margin of error for departures from cost is shown by the cost savings which users already realize or anticipate. In other words, given the cost savings differentials reported by the survey respondents, even slight departures from cost-based common carrier rates - increasing the price of these services to potential CPCS users - could cause increases in the deployment of CPCS.

The results reported at the opposite extremes of these cost savings ranges also may be instructive. Cost savings in the higher ranges reported by the survey respondents may indicate that a policy which attempted to limit CPCS by means of surcharges, taxes or other new fees could require large and increasing levies to achieve its goal. The other end of the range - where cost savings are either low or do not exist - suggests that an effort to mask the economics of deploying CPCS in this manner could also fail when use of such systems is driven by perceived limits in the quality or availability of common carrier services.

Mr. WYDEN. Mr. Kraemer.

TESTIMONY OF JOSEPH S. KRAEMER, PARTNER, MANAGEMENT CONSULTING DIVISION, TOUCHE-ROSS & CO.

Mr. KRAEMER. Good afternoon, Mr. Chairman and members of the task force. I am Joe Kraemer. I am a partner in the Management Consulting Division of Touche-Ross. In the last 18 months we have conducted studies of the nature, extent and implication of bypass in 25 States. My purpose today is to share the results of those studies and answer specific questions that were put to me by the staff.

In order to determine the extent of bypass, we interviewed approximately 2,000 of the largest users of telecommunications in the United States. Of these, 5 percent were public agencies such as States, cities, counties and school districts, and 59 percent were large business customers.

For purpose of the studies which I directed, bypass was defined as the origination and/or termination of voice or data traffic without use of the telephone company local loops. I think that is an important definition because we would exclude from our definition things like the use of private lines, that is we exclude telephone facilities, that is, we do not count those as bypass. It is only when they roll off the network that for us they are defined as bypass.

We did not classify as bypass any systems which are not normally provided by local telephone companies. Consequently, we did not classify as bypass the following: Receiver only video systems used to receive television programming from satellites by cable television; local area networks such as those interconnecting word processors in a single building; or buildings on contiguous property or mobile radios connecting base stations with vehicles.

While difficult to generalize because our study results vary by State, the following represents major findings from the bypass studies. One bypass is a current reality. Our study shows that 1 in 4 of the largest customers divert some traffic from the local loops of the telephone company. Amounts of traffic diverted is usually 10 to 20 percent of total traffic originating from a facility with access to a bypass system; that is an average.

The amount of traffic diverted in the future will probably increase. Almost every user who currently bypasses will continue to do so. I don't think we have had one indicate they intended to discontinue bypassing. Most users which currently bypass intended to expand their use of bypass, and the large users which do not currently bypass have plans to do so within the next 3 years.

Third, bypass is accelerating. More than half of the bypass systems in the United States have been built since 1980 and it is true that we have had microwave, private systems since the late 1950's, but approximately half of the bypass systems that we have seen or identified have occurred in the last 4 years. I think I would say that is a significant finding.

Fourth, large customers clearly indicate that the decision to bypass is motivated by the customers' need to reduce cost. Customers which plan to bypass expect to save 10 to 20 percent of the equivalent telephone company services.

Fifth, although the primary factor in current bypass is price, service is also important. Given approximately equal prices, customers will select vendor based on service expectations.

Sixth, business judgment may lead interchange carriers, including AT&T to interconnect their networks directly to the premises of large customers, the effect of which will be to bypass the local telephone company. From the interexchange carriers' point of view, this may be done in order to reduce the cost of access to the local exchange carrier, and/or provide a response to competitors who offer bypass facilities to customers.

Seventh, large customers are receptive to direct interagency interexchange. Over 1 in 5 of the large customers reports being approached by an interexchange carrier offering to interconnect their long distance network directly, and therefore bypass the local phone company.

Over 80 percent of the large customers indicated a willingness to consider direct interconnection to AT&T or to another carrier such as MCI.

Mr. **Wyden**. I know this is unfortunate, but I am just never going to make this vote unless I run out. Why don't we break at this point. We will pick up when I can get back.

Thank you. I apologize.

[A short recess was taken.]

Mr. **Wyden**. Gentlemen, my apologies to you. Believe it or not, we may get buzzed for yet another vote here in a minute, so let us proceed, Mr. Kraemer, and I apologize to you.

Mr. **Kraemer**. Revenue loss on bypass is cumulative, on for the most part, probably irrevocable. Large customers will not abandon bypass facilities to return to the local telephone company.

Revenue losses in 1984 due to bypass are measurable. We estimated $34 million in 1984 for New York Telephone, increasing to $147 million in 1987, or essentially a 300-percent increase over 3 years.

However, no major telephone company is threatened with immediate bankruptcy because of bypass. There is a window in time for the local telephone companies and regulators to prepare responses to bypass.

Responses are required from both regulatory Commissions and local telephone companies. With respect to regulators, the required response would be one that allows competitive pricing by telephone companies. The range of responses being considered in various regulatory proceedings, which I believe merit consideration, including the following:

One, termination liabilities, so that a large user pays for unamortized plant, which would be stranded when the user diverted traffic to bypass systems. When a large user disconnected circuits from the network, he would pay the unamortized costs rather than leaving it in a rate base, so that small business customers and residential customers left on the network would have to pay for them.

Two, pricing services using new technology at the incremental cost of that technology rather than at average cost.

Three, contractual arrangements instead of tariffs under conditions when the alternative is loss of a large customer's business.

Four, reducing elapsed time before new prices become effective in competitive offerings.

Five, capping the amount of nontraffic-sensitive cost being recovered from a large user.

Six, deaveraging prices for services at highly competitive zones or along highly competitive routes.

Seven, allowing a telephone company flexibility in pricing competitive services by permitting discretionary price changes between Commission-approved minimum and maximum prices.

Eight, imposing the same degree of regulation on all competitors.

Nine, deregulation of specific services for which a regulatory Commission determines that a competitive market exists.

Ten, imposition of the flat-rate, monthly, end-user charges.

With respect to telephone companies, these companies no longer have a monopoly on the origination and termination of traffic in their service areas. Consequently, a local telephone company must compete in terms of price and customer service in order to retain its customer base.

If a telephone company does not respond effectively to competition in the marketplace, then bypass will continue and increase.

This completes my testimony. I appreciate the opportunity to appear.

[Mr. Kraemer's prepared statement with attachments follow:]

PREPARED STATEMENT OF JOSEPH S. KRAEMER, PARTNER, MANAGEMENT CONSULTING DIVISION, TOUCHE ROSS & CO.

I am Joseph S. Kraemer, a partner in the Management Consulting Division of Touche Ross & Co. In the last 18 months, I have directed studies of the nature, extent, and implications of bypass in 25 states. These states are listed on Schedule No. 1 and include all the regions of the United States.

The purpose of my testimony is to provide the Special Task Force on Telephones with a summary of our findings. In particular, I will respond to the specific questions posed by the staff.

In order to determine the extent of bypass, Touche Ross & Co. interviewed approximately 2,000 of the largest end users of telecommunications throughout the United States.* Approximately 5% of these users were public agencies, such as cities, counties and school districts. The remaining 95% were large business customers.

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*In general, a large end user generated in excess of $20,000 per month in MTS, WATS, and private line services.

Whenever possible, information provided in the course of customer interviews was corroborated by:

- Actual observation of bypass facilities; and/or
- Cross referencing FCC licenses; and/or
- Review of the trade press.

It should be noted that we avoided classifying as bypass any communications systems which are not normally employed by local telephone companies. Consequently, we did not classify as bypass the following:

(a) Receive-only video systems used to receive television programming from satellites by cable television systems;

(b) Local Area Networks (LAN'S) in a single building or between buildings on contiguous property; or

(c) Mobile radios connecting base stations with vehicles.

WHAT IS BYPASS?

For purposes of the studies which I directed, bypass was defined as the origination and/or termination of voice or data traffic without use of the telephone company's local loops. The technologies employed to bypass a local telephone company may include:

- Microwave;
- Satellite;
- Coaxical cable/fiber optics/wire; and
- Atmospheric optical systems.

Absent bypass, the customer would utilize the local telephone network. Once connected to the network, a customer may originate a call to, or receive a call from, any other subscriber connected to the network regardless of whether the calls are intraexchange, interexchange, intrastate, or interstate.

Local telephone companies require sufficient revenues to cover their costs and make appropriate rates of return on the services they provide by means of their networks. The revenues may come from local exchange services, intra-LATA* private line services, access charges, and intra-LATA toll services. Bypass reduces revenues from one or more of these service categories.

When bypass occurs, the local telephone company experiences a reduction in revenues from local subscribers, the interexchange carriers, or both. I've prepared an exhibit to illustrate how this occurs. Schedule No. 2a shows a simplified configuration in which a customer has two locations (A and B) in a single LATA. The customer uses the local telephone company's plant to route traffic between locations A and B and between either location and the long haul transmission facilities* of an interexchange carrier.

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*LATA is an acronym for "Local Access and Transport Area"; this term refers to the geographic service area in which a Bell Operating Company (BOC) can provide service. A BOC cannot provide inter-LATA service; the carriers who provide such services are designated as "interexchange carriers."

In Exhibit No. 2b, the customer at location A can now bypass the local plant using dedicated bypass facilities to reach either the interexchange carrier's point of presence or location B. Since the circuits are bi-directional, the traffic routed outside of the local plant in Schedule No. 2b can originate at customer location A, customer location B, or outside the LATA (entering through the interexchange carrier's point of presence).

The effect of bypass is a loss of revenue from both local subscribers and interexchange carriers. As shown on Schedule No. 2b, in a bypass configuration traffic is diverted from the local telephone company. The lost traffic means lost revenue. Furthermore, the remaining subscribers (including small business and residential customers) must pay higher rates in order to compensate for the revenue lost through bypass.

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*The entry point to the long haul transmission facilities of an interexchange carrier is known as the carrier's Point-of-Presence (POP).

SUMMARY OF STUDY RESULTS

While difficult to generalize because our study results vary by state, the following represents the major findings from our bypass studies:

1. Bypass is a current reality. Our studies show that one in four of the largest customers divert some traffic from the local loops of the telephone company. The amount of traffic diverted is usually 10% to 20% of total traffic originating from a facility with access to a bypass system.
2. The amount of traffic diverted in the future will probably increase:
   a. Almost every user which currently bypasses will continue to do so.
   b. Most users which currently bypass intend to expand their use of bypass.
   c. Half of the large users which do not currently bypass have plans to do so within the next three years.
3. Bypass is accelerating. More than half of the bypass system in the United States have been built since 1980.
4. Large customers clearly indicate that the decision to bypass is motivated by the customer's need to reduce costs.
   a. Customers which plan to bypass expect to save ten to twenty percent over equivalent telephone company services.

   b. This means telephone companies can still price at some premium to bypass options so long as that premium does not exceed ten percent.

5. Although the primary factor in current bypass is price, service is also important.

   a. Given approximately equal prices, customers will select a vendor based on service expectations.

   b. Consequently, assuming relatively equal prices, telephone companies will need to pay close attention to the satisfaction levels of all customers, especially of large customers.

6. Business judgment may lead interexchange carriers (including AT&T) to interconnect their switches directly to the premises of large customers, the effect of which will be to bypass the local telephone company. From the interexchange carrier's point of view, this may be done in order to:

   a. Reduce the cost of access to the local exchange carrier; and/or

   b. Provide a response to the competitors who offer bypass facilities to customers.

7. Large customers are receptive to direct interconnection to interchange carriers.

   a. Over one in five of the large customers report being approached by an interexchange carrier offering to interconnect their long distance network directly and thereby bypass the local telephone company.

   b. Over 80% of the large customers indicate a willingness to consider direct interconnection to AT&T or to an OCC such as MCI.

8. Revenue lost to bypass is cumulative and for the most part probably unretrievable. Large customers will not abandon bypass facilities to return to the local telephone company because:

   a. The customers need to recover their investment; and/or

   b. The telecommunications manager who made the bypass decision has a vested interest in making it work since his credibility is at stake; and/or

   c. The bypass system may meet the customers cost and service objectives, in which case no incentive to change exists.

9. Revenue losses in 1984 due to bypass are measurable. However, no major telephone company is threatened with immediate bankruptcy because of bypass.

   a. In the future if there is no agreement to allow the company to price its services competitively with bypass options, then the marketplace will receive signals which will encourage bypass. Revenue losses can then be expected to accelerate.

   b. As bypass increases, the long run effect will be disadvantageous to the customers (primarily residential subscribers and small businesses) remaining on the network.

RESPONSES TO BYPASS

Responses are required from both regulatory commissions and local telephone companies. With respect to regulators, the required response would be one that allows competitive pricing by telephone companies. The range of responses being considered in various regulatory proceedings which, I believe, merit consideration, include the following:

1. Termination liabilities so that a large user pays for unamortized plant which would be stranded when the user diverted traffic to bypass systems;
2. Pricing services using new technology at the incremental cost of that technology rather than average costs;
3. Contractual arrangements instead of tariffs under conditions when the alternative is loss of a large customers business;
4. Reducing the elapsed time before new prices become effective in competitive offerings;
5. Capping the amount of non-traffic sensitive costs being recovered from a large user to ensure recovery of all costs caused by that user but to avoid unlimited exposure of the user to contribute to costs caused by other users.
6. De-averaging prices for services in highly competitive zones or along highly competitive routes;
7. Allowing a telephone company some flexibility in pricing competitive services by permitting discretionary price changes between commission approved minimum and maximum prices;
8. Imposing the same degree of regulation on all competitors;
9. Deregulation of specific services for which the commission determines that a competitive market exists; and
10. Imposition of flat rate monthly end user charges.

With respect to telephone companies, those companies no longer have a monopoly on the origination and termination of traffic in their service areas. Consequently, a local telephone company must compete in terms of price and customer service in order to retain its customer base. If a telephone company does not respond effectively to competition in the marketplace, then bypass will continue and increase.

* * *

In order to provide additional data, the attachment to my testimony, Bypass of the Local Exchange, contains specific findings with respect to certain midwestern states.

This completes my testimony. I appreciated this opportunity to appear before the Special Task Force on telephones.

SCHEDULES

Schedule No. 1

STATES IN WHICH TOUCHE ROSS HAS STUDIED BYPASS

1. Arkansas
2. Texas
3. Oklahoma
4. Missouri
5. Kansas
6. New York
7. New Jersey*
8. Iowa*
9. California
10. Michigan
11. Ohio
12. Illinois
13. Indiana
14. Wisconsin
15. Florida
16. North Carolina
17. South Carolina
18. Georgia
19. Montana
20. Utah
21. Idaho
22. New Mexico
23. Arizona
24. Colorado
25. Wyoming

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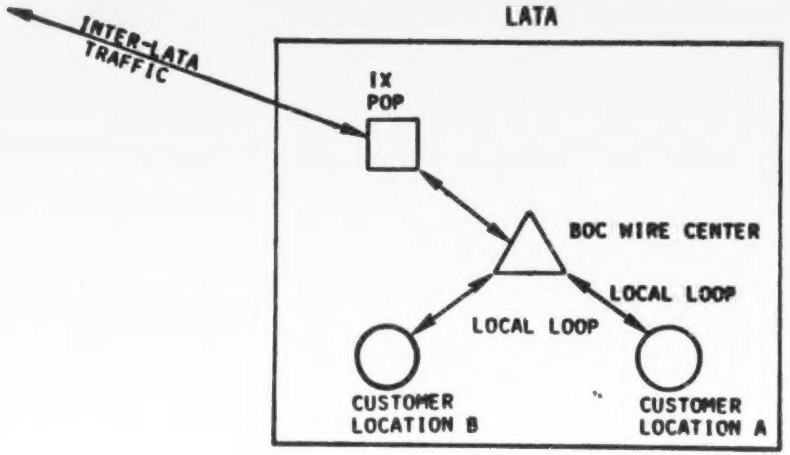
*Denotes in process studies; all others have been completed.

Schedule 2A

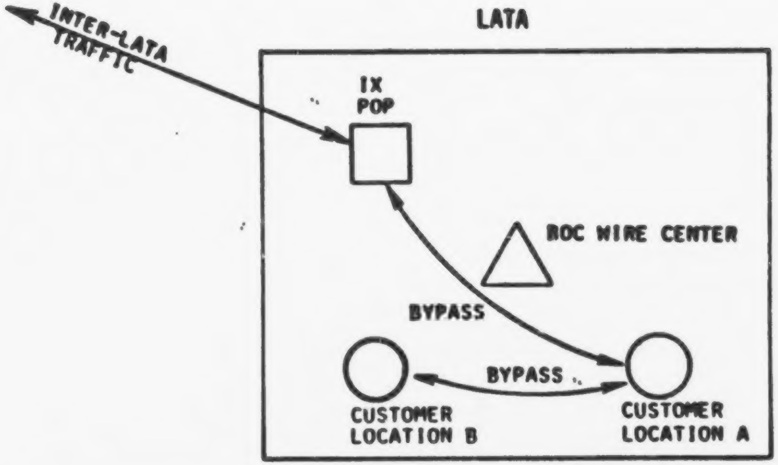
LOCAL LOOP CONFIGURATION - NO BYPASS


LATA
INTER-LATA TRAFFIC
IX POP
BOC WIRE CENTER
LOCAL LOOP
LOCAL LOOP
CUSTOMER LOCATION B
CUSTOMER LOCATION A

KEY: IX POP = INTEREXCHANGE CARRIER'S POINT-OF-PRESENCE
LATA = LOCAL ACCESS AND TRANSPORT AREA

Schedule 2B

BYPASS CONFIGURATION



LATA
INTER-LATA TRAFFIC
IX POP
ROC WIRE CENTER
BYPASS
BYPASS
CUSTOMER LOCATION B
CUSTOMER LOCATION A

KEY: IX POP = INTEREXCHANGE CARRIER'S POINT-OF-PRESENCE
LATA = LOCAL ACCESS AND TRANSPORT AREA

ATTACHMENT

BYPASS OF THE LOCAL EXCHANGE:

THE FIVE GREAT MYTHS AND THE REALITIES OF COMPETITION

By

Dr. Joseph S. Kraemer

Touche Ross & Co.
WASHINGTON, D.C.

BYPASS OF THE LOCAL EXCHANGE: THE FIVE GREAT MYTHS AND THE REALITIES OF COMPETITION

By

Dr. Joseph S. Kraemer

BYPASS OF THE LOCAL EXCHANGE: THE FIVE GREAT MYTHS AND THE REALITIES OF COMPETITION

by

Dr. Joseph S. Kraemer

One of the most controversial subjects in telecommunications today is "bypass." The Federal Communications Commission (FCC) has used bypass to justify its access charge decision. Bell Operating Companies (BOC's) and some independent telephone companies take bypass as a given and request "a level playing field." State regulators, in turn, tend to believe that bypass is: (a) not a problem; (b) created by telephone companies as an excuse for rate increases; or (c) relevant to states other than the one in which they preside.

Under a series of contracts with a number of BOC's and independent telephone companies, Touche Ross & Co. analyzed the nature, extent, and implications of bypass in 22 states, primarily in the midwest, south, southwest, and far west. The analysis involved telephone and/or on-site interviews with over 1,200 large users of telephone services.*

The results of the surveys show that on a national level the extent of bypass has generally been underestimated. Bypass is a current reality.**

THE FIVE GREAT MYTHS

During the past year in the trade press, in the professional journals, and during the course of regulatory proceedings, there have emerged a series of positions on bypass. These positions, which I describe as the Five Great Myths, are as follows:

1. COMPETITION DOES NOT EXIST; THE LOCAL LOOP IS A MONOPOLY.
2. REGULATORY COMMISSIONS CAN NOT AFFECT THE LEVEL OF BYPASS.
3. BYPASS RESULTS FROM HIGH-TECH APPLICATIONS.

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* The definition of a large user varied from state to state. In general, a large user generated in excess of $20,000 per month in MTS, WATS, and private line.

** For purposes of our study, bypass was defined as the origination and/or termination of calls without use of the local telephone company's local loops.

4. SOME LEVEL OF BYPASS HAS ALWAYS EXISTED - IT IS "NO BIG DEAL."

5. THE MAXIMUM POTENTIAL FOR BYPASS IS LIMITED.

Each of these is examined below using data from three states in a single region of the United States. The results from these three are generally representative of what we have found nationally.

Myth #1: COMPETITION DOES NOT EXIST; THE LOCAL LOOP IS A MONOPOLY.

As shown on Table 1, bypass is very much a current reality. Of the approximately 100 largest public and private sector users in three states in one region, the percentage of users with at least one bypass system operational (as of June 1983) ranged from a low of 16% to a high of 30%.*

Furthermore, bypass may continue to increase among large users. Table 2 shows that many plan to implement bypass systems in the 1984 to 1986 time frame. In addition, many users are aware of bypass alternatives and remain "undecided" as of now. This "undecided" category consists of those who are monitoring the outcome of: (a) the FCC access charge plan; (b) state rate cases; and (c) anti-bypass legislation on Capitol Hill.

Several technologies are currently employed to bypass the local exchange. These technologies (in descending order of expected occurrence) are: (1) microwave; (2) satellite with customer premise earth stations; (3) cable/wire/fiber; and (4) atmospheric optical systems (e.g., infrared).

Myth #2: REGULATORY COMMISSIONS CAN NOT AFFECT THE LEVEL OF BYPASS.

This myth assumes that bypass is motivated by nonprice factors, such as a desire by large customers for improved reliability, control, or security. Since the primary regulatory tool of commissions is control over the prices charged by common carriers, bypass for reasons other than price tends to be beyond a commission's authority.

The data shows that large users are very price sensitive and that the primary reason for existing (Table 3) and planned (Table 4) bypass systems is "equivalent service at lower cost." Regulators affect the price of service to large users and, therefore, the level of bypass.

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* The data used for this article was taken from the public record of regulatory proceedings in which I testified.

Furthermore, based on our survey results, three of four users who plan to implement bypass expect to save 20% or less over their current telephone company service. This provides a clear example of price driven behavior in contrast to the regulators who believe that "value of service" justifies business users paying a premium over identical service provided to residential subscribers. To the extent regulators impose an effective surcharge on large users to subsidize other subscribers, the price sensitivity of large users will result in traffic being diverted from the local network.

There is also a lesson here for BOC's, which believe that the Bell name is worth an additional 10% or 20% in the marketplace. The responses of large users clearly indicate that they will select the least cost alternative when they can save 10% or more.

Myth #3: BYPASS RESULTS FROM HIGH-TECH APPLICATIONS.

The third myth assumes traffic routed through bypass systems consists of video and/or high-speed (56,000 bps or better) data. To the extent this assumption is true, bypass will not involve any significant revenue loss from voice and voice-grade data.

In actuality, bypass traffic is low-tech not high-tech. As shown on Table 5, on average approximately 60% of the bypass systems of large users carry traffic that is at least 75% voice. Even the data traffic through bypass systems is voice-grade traffic (9,600 bps or less). This means that local telephone companies are losing their bread-and-butter traffic to bypass systems.

Myth #4: SOME LEVEL OF BYPASS HAS ALWAYS EXISTED; IT IS "NO BIG DEAL."

It is true that some bypass systems were constructed in the 1960's and earlier. However, construction of bypass systems has accelerated measurably since 1980. In fact, substantially more than half of the bypass systems used by respondents in our regional survey have been built since 1980 (Table 6).

Several factors appear to account for the surge since 1980. These are:

- A series of significant rate increases for large users in the late 1970's and early 1980's, which provided an incentive to control and/or reduce costs;

- The presence of an increasing number of service providers in addition to the local telephone company; and
- Technological improvements that reduced the cost of competitive alternatives to the local loop.

Myth #5: THE MAXIMUM POTENTIAL FOR BYPASS IS LIMITED.

This myth assumes that only a limited amount of traffic (and therefore revenue) can be transferred to bypass systems. However, the fifth myth ignores: (a) the perception of large user network managers that substantial traffic can be diverted to bypass and (b) the possible future role of interexchange carriers, such as AT&T, MCI, GTE Sprint, and a series of established and new carriers offering satellite communications using customer premise earth stations.

The survey found that an average existing bypass system carries 20% of less of originating traffic for a user.* However, network managers (including current bypassers, future bypassers, and the undecided) believe that, on average, as much as 50% of originating traffic could be transferred to bypass systems.

In addition, local telephone companies are vulnerable if interexchange carriers choose to sell bypass and can identify cost savings to the customer through a bypass arrangement. Table 7 shows that large customers would be willing to interconnect directly to AT&T if they could save 20%. Customers are also willing to directly interconnect to OCC's for similar cost savings (Table 8).

Direct interconnection is a real possibility in the post-divestiture era. Competition will provide an incentive for interexchange carriers to sell bypass (i.e., direct interconnection) to:

- Reduce their cost of access;
- Provide a competitive response to bypass activities of other interexchange carriers; and/or
- Acquire customer premise access circuits for special services (e.g., for AT&T's ACCUNET family of digital services) not otherwise available from a BOC in a timely manner.

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* Some existing bypass systems carry as much as 80% of originating traffic.

THE REALITIES OF COMPETITION.

The five great myths assume local exchange monopoly on the part of the telephone company...

THE REALITY IS COMPETITION.

Local telephone companies are vulnerable. Telco revenues are concentrated among a limited number of large customers who tend to be located in a small number of wire centers. This concentration means that competitors need only build bypass systems to handle high volumes of traffic originating from a limited number of large customers in densely packed wire centers. The competitors do not have to replicate the entire ubiquitous local plant.

In a competitive environment, prices tend to move towards cost. But telephone companies are regulated and do not have discretion over the prices they charge. Furthermore, over the past 30 years, regulators (with the acquiescence of telephone companies) have developed pricing structures that result in large users paying more for equivalent service than other categories of subscribers. The legacy of these value-of-service pricing structures is a reluctance on the part of regulators to allow telephone companies to price based upon cost (including a rate of return). The result is that (a) large users have an incentive to divert traffic from the local exchange and (b) competitors receive false signals as to the desirability of entering the marketplace.

By the way, although the primary factor in current bypass decisions is price, service is also very important. Telephone companies, in general, need to pay more attention to the satisfaction levels of all customers and especially of large customers. Over the past 12 months, we have observed that the large customers perceive a decline in service levels, especially in areas such as service restoration, responsiveness to customer requirements, cut-overs to new systems/facilities, and ordering of new circuits.

Service issues have got to be paramount concerns of telephone company management. When regulators provide relief to companies on pricing offerings to large customers, then telephone companies will market and sell on an equal basis with their competitors. When prices become relatively equal (for practical purposes within 10%), then customers will buy based on their perception of relative service levels. If a telephone company cannot establish strong relationships with customers, then the telephone companies will continue to lose traffic (and revenues) from large customers, both public agencies and private businesses.

That is why telephone companies must address bypass as at least as much a marketing/customers service issue as a regulatory issue. Most likely in the near future, regulators will allow telephone companies to compete by allowing some pricing flexibility. However, the telephone companies will have no one to blame but themselves if, once given relief in the pricing area, they lose local exchange market share and revenues.

TABLES

TABLE 1

THE DIVERSIFIED SERVICE AREA OF ONE REGION OF THE UNITED STATES IS TYPICAL . . .

STATE	# OF PARTICIPANTS	BYPASS #	BYPASS %
OHIO	105	31	30%
MICHIGAN	106	26	25%
WISCONSIN	98	16	16%

TABLE 2

. BYPASS MAY CONTINUE TO INCREASE AMONG LARGE CUSTOMERS.
MANY HAVE PLANS TO BYPASS BY 1986 . . .

STATE	CURRENTLY BYPASS	PLANS TO BYPASS	UNDECIDED	NOT BYPASS NO RESPONSE
OHIO (n=105)	30%	33%	28%	9%
MICHIGAN (n=106)	25	28	36	11
WISCONSIN (n=98)	16	22	39	23

TABLE 3

PRIMARY REASON FOR BYPASS
(CURRENTLY BYPASS)

REASON	OHIO	MICHIGAN	WISCONSIN
EQUIVALENT SERVICE AT LOWER COST	83%	74%	75%
HIGHER RELIABILITY	0	0	12
BETTER SERVICE	11	0	0
BETTER TRANSMISSION QUALITY	0	4	0
AVAILABILITY OF DIGITAL CAPABILITY	3	0	0
HIGHER DATA RATES	0	0	0
OTHER	3	22	13
TOTAL	100%	100%	100%

TABLE 4

PRIMARY REASON FOR BYPASS
(PLAN TO BYPASS)

REASON	OHIO	MICHIGAN	WISCONSIN
EQUIVALENT SERVICE AT LOWER COST	86%	87%	77%
BETTER SERVICE	6	0	8
AVAILABILITY OF DIGITAL CAPABILITY	0	0	0
HIGHER RELIABILITY	2	10	5
BETTER TRANSMISSION QUALITY	0	0	0
HIGHER DATA RATES	0	0	5
OTHER	6	3	5
TOTAL	100%	100%	100%

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*INCLUDED ONLY CUSTOMERS WHO INDICATED THEY WOULD BYPASS IN THE NEXT THREE YEARS.

TABLE 5

TRAFFIC SENT THROUGH A BYPASS SYSTEM IS MOSTLY VOICE AND VOICE GRADE DATA . . .

TRAFFIC DISTRIBUTION				
VOICE	DATA	OHIO	MICHIGAN	WISCONSIN
100%	0%	26%	32%	38%
75%	25%	20	28	31
50%	50%	26	12	19
25%	75%	11	4	0
0%	100%	14	20	6
VIDEO		3	4	6
TOTAL		100%	100%	100%

TABLE 6

CONSTRUCTION OF BYPASS SYSTEMS IS ACCELERATING . . .

YEAR BUILT	OHIO	MICHIGAN	WISCONSIN
BEFORE 1970	15%	13%	18%
1970 - 1974	6	0	6
1975 - 1979	23	4	12
1980 - 1983	56	83	64
TOTAL	100%	100%	100%

TABLE 7

LARGE CUSTOMERS ARE WILLING TO CONSIDER DIRECT INTERCONNECTION TO INTEREXCHANGE CARRIERS . . .

WILLINGNESS TO INTERCONNECT TO AT&T

	OHIO	MICHIGAN	WISCONSIN
NO SAVINGS	30%	17%	18%
10% SAVINGS	28	37	39
20% SAVINGS	14	17	16
TOTAL 20% OR LESS	72%	71%	73%
OTHER SAVINGS (MORE THAN 20%)	9	6	4
OTHER FACTORS (NON-PRICE)	5	10	12
WOULD NOT DO SO	5	3	3
DON'T KNOW	9	10	8
TOTAL	100%	100%	100%

TABLE 8

LARGE CUSTOMERS ARE WILLING TO CONSIDER DIRECT INTERCONNECT ON TO INTEREXCHANGE CARRIERS . . .

WILLINGNESS TO INTERCONNECT TO OCC'S

	OHIO	MICHIGAN	WISCONSIN
NO SAVINGS	24%	10%	12%
10% SAVINGS	24	31	31
20% SAVINGS	18	21	25
TOTAL 20% OR LESS	66%	62%	68%
OTHER SAVINGS (MORE THAN 20%)	9	12	4
OTHER FACTORS (NON-PRICE)	6	11	15
WOULD NOT DO SO	10	5	4
DON'T KNOW	9	10	9
TOTAL	100%	100%	100%

Mr. **Wyden**. Mr. Faust?

TESTIMONY OF OF E.Q. FAUST, VICE PRESIDENT, CORPORATE AND FEDERAL MATTERS, BELLSOUTH CORP.

Mr. **Faust**. My name is Ken Faust, and I represent the BellSouth Co., Southern Bell, and South Central Bell.

There was a lot of discussion earlier in the day, Mr. Chairman, about affordable service, and universal service, and I want to assure you that the BellSouth companies have a 100-year-old tradition of excellent service at affordable prices, and I can assure you that we intend to perpetuate that heritage.

We are committed to preserving that tradition, for several reasons: One, it is beneficial to the general public, and two, frankly, it is good business.

The BellSouth companies believe that the end-user charge plan is a most important first step toward economically sound, cost-based pricing in a restructured telecommunications industry.

Our support of an economically rational price structure is totally consistent with our commitment to universal service.

The restructure of the telecommunications industry, regardless of what all we heard earlier today, is a fait accompli. So is competition in the provision of long-distance telephone service.

If the public is to reap the potential benefits of this public policy decision, then the industry's prices must be restructured to match the industry's costs.

Price restructuring does not, however, imply an increase in the total price of the industry's services. The monopoly price structure that has long provided a subsidy to local exchange service from long-distance service is no longer a viable option. The cost burden of this subsidy is now imposed on the interexchange areas.

That subsidy that the interexchange carriers are carrying represents about one-third of their cost of providing interexchange service.

This subsidy, that one-third additional burden that they are carrying, makes the present pricing structure of the interexchange carriers irrational in a competitive market, and constitutes the prime target for cost reduction by interexchange carriers in response to increasing competition.

The rational response to this price/cost imbalance is for interexchange carriers and their customers to bypass the local network.

Do we need to stop for another vote?

Mr. **Wyden**. I apologize on behalf of the whole institution for this. This is going to be the longest running battle since the Trojan wars. Please proceed for another 5 minutes or so, and I will try once more.

Mr. **Faust**. Very well.

I was saying that the rational response to this price/cost imbalance for interexchange carriers to bypass the local network. We need to talk about the different times of bypass, because you asked the question.

Bypass can take several forms, and at least 76 of BellSouth's largest customers have already built their own private systems, and I might point out that the State of North Carolina, for instance, is studying a consultant's recommendation to build its own system that will cost over $25 million.

It is worth mentioning, in light of this discussion earlier today, that North Carolina at least is weighing the benefits of lowering its own telephone bill against the prospects of raising the telephone bills of its citizens, who remain on the public switched network.

I would say, however, that other heavy users would not have that same altruistic bend that the State of North Carolina does.

Another means of bypass is called special access. Special access is a dedicated, nonswitched private line offering of the local telephone companies, and affords interexchange carriers an opportunity to reduce their access costs for their customers who are heavy users without abandoning the local network.

The BellSouth companies have already received over 500 orders for high capacity special access from interexchange carriers.

The bottomline of this is that the combined threat of all forms of bypass to the BellSouth companies is substantial. It amounts to about $1.9 billion, or roughly 20 percent of our revenue stream that is vulnerable to bypass.

Implementation of the end-user, charge plan would reduce that vulnerability by 50 percent, we estimate, and we think it would do so without harming small businesses.

In fact, if you plug in a toll reduction that should accompany the implementation of the end-user, charge plan, it would in fact result in a 1- to 2-percent reduction in the average telephone bill of business customers with 1 to 10 access lines.

The pricing of local telephone services in a economically rational manner is advanced by the offering of operational local measured service, which is designed to reflect the cost caused by usage of the local telephone network and to provide customers with a low-cost alternative to flat rate local service charges.

Taken together, and this is one of my exhibits, exchange access and local exchange service account for roughly three-fourths of our operating revenues.

Consequently, the proper or improper pricing of those services will determine the ability of the BellSouth companies to continue providing high-quality service at affordable prices as competition and technological advances continue to reshape the industry.

Price structure changes to match the industry structure changes are a matter of serious concern to the BellSouth companies, as I know they are to you, Mr. Chairman, because we both share concern over universal service.

I am confident if we talk to one another and listen to one another, we can reach a mutual solution that will provide universal service.

Thank you for the opportunity.

[Mr. Faust's prepared statement with attachments follow:]

PREPARED STATEMENT OF E.Q. FAUST, VICE PRESIDENT, CORPORATE AND FEDERAL MATTERS, BELL SOUTH CORPORATION

My name is Ken Faust. I am Vice President-Corporate and Federal Matters for BellSouth Corporation. My office is located at 675 West Peachtree St. in Atlanta, Georgia. I am here on behalf of BellSouth and its operating telephone subsidiaries, South Central Bell Telephone Company and Southern Bell Telephone and Telegraph Company.

I would like to thank Congressman Wyden and the other members of this committee for inviting me to testify. I share your concern for the continued affordability of telephone service across the country. In expressing this concern, I speak not only for myself personally but also for the BellSouth Companies.

A century-old tradition of excellent service at affordable prices is an integral part of BellSouth's heritage. We are committed to preserving that tradition for the present and future generations, because maintaining universal service is beneficial to the general public and it is good business. It makes our service more valuable and thus more marketable. Thus, I can say to you unequivocally that we will not abandon our efforts to ensure that universal service is sustained.

We welcome this opportunity to participate in public dialogue on this very important subject. The goal that you in the Congress, our regulators, and we in the industry share can only be attained if we work together, and we can work together only if we talk to one another and listen to one another.

The preservation of universal service has been one of the goals of the FCC's investigation of the long distance market structure, which it began in 1978[*]. That investigation has resulted in the FCC's access charge plan, which the BellSouth Companies support as an important first step toward economically sound, cost-based pricing of local and long distance services. We recognize that opinions frequently differ over the best approach to preserving universal service in the newly competitive telecommunications market. Those differences should not, however, be allowed to obscure our common commitment to that goal. Nor should short-term considerations be allowed to preclude the public from the long-term benefits of pursuing a reasoned, economically sound approach to the problem.

In keeping with the mandate given to it fifty years ago by the Congress in the Communications Act of 1934, the FCC is working to assure that universal service will be preserved in the restructured telecommunications market. Despite pressures to the contrary, now is not the time to abandon the established and experienced regulatory process and substitute for it direct regulation by the Congress.

The divestiture of the Bell Operating Companies is a fait accompli. Public policy favoring competition in the provision of telecommunications services is set. The catalyst for the restructuring of the industry and for the evolution of a new public policy has been the competitive opportunities afforded by the relentless and explosive growth of telecommunications technology in recent years. In a free society like ours, legislation should not eliminate or impede these technological gains nor the competitive environment that they have created.

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[*] See Supplemental Notice of Inquiry and Proposed Rulemaking, CC Docket No. 78-72, 73 F.C.C. 2d 222, 230-31 (1979); Notice of Inquiry and Proposed Rulemaking, CC Docket No. 78-72, 67 F.C.C.2d 757, 760 (1978).

Despite the inevitable change inherent in moving to a competitive market, there are tangible benefits from the restructuring of the telephone industry. Customers can now choose from numerous suppliers of telephone equipment and long distance services. New technologies are being deployed more rapidly, and the opportunities of small businesses and consumers to take advantage of computer technology and data communications are expanding. In sum, the cost of competition is change, but the benefits to the public are more choices and availability of more services.

Presently, the prices that local telephone companies charge long distance carriers for access include charges designed to recover costs that the telephone companies incur simply because a local customer is connected to the local telephone network. Those costs would exist regardless of whether the customer ever made a long distance telephone call.

In the industry's jargon those costs are called "non-traffic sensitive costs." Those costs comprise the largest single cost source for interexchange carriers and accounts for more than 30 percent of AT&T's costs of providing long distance services. Since the recovery of substantial amounts of non-traffic sensitive local exchange costs is a major factor in the price AT&T pays for access to the local network, the result is that AT&T's long distance rates are much higher than would otherwise be necessary.

This recovery of non-traffic sensitive local costs through long distance charges has for decades provided a subsidy to local costs from long distance revenues. That subsidy has helped telephone companies and their state regulators provide local exchange service at rates substantially lower than the cost of providing local service.

In today's interexchange market, long distance carriers must find ways of reducing their costs in order to remain competitive. Exchange access charges that include substantial costs unrelated to the real cost of exchange access provide a prime target for such cost reduction. The recovery of non-traffic sensitive costs by access charges that vary with usage creates an artificially high price for usage. If there were no competition in the market for exchange access, long distance carriers and their customers would have no alternative to this uneconomic pricing. But alternatives do exist, and customers or long distance carriers who can save money by choosing an alternative means of access are likely to do so.

Alternatives to the exchange companies' access service have been dubbed "bypass." In truth, bypass is simply rational behavior on the part of interexchange carriers and their customers in a market where artificial price restraints inhibit cost-based pricing.

Long distance carriers have found one economical alternative to the local telephone companies' usage sensitive, switched access in the local companies' own tariffs. That alternative is called "special access." Rather than being usage sensitive, special access is offered at a flat-rate charge, which is not as heavily burdened with non-traffic sensitive costs as switched access service. Special access can be appropriately priced on a flat-rate basis because it utilizes a dedicated facility and involves no local switching. Thus, the cost of providing special access does not increase with usage. Long distance carriers will find it economical to use special access to bypass switched access whenever a particular customer's usage is heavy enough. BellSouth's operating telephone companies have already received more than 500 orders and inquiries from long distance carriers requesting high-capacity special access facilities from their points-of-presence direct to their customers' locations or to local exchange wire centers.

Bypass is also occuring where customers who are heavy users of toll services find it economical to construct their own private networks. Many large business customers in the BellSouth region have already chosen that alternative. By an informal survey, we have documented the existence of at least 76 major multi-point bypass systems operating in the BellSouth region. We are aware of many more, but have not yet obtained enough information about them to be more specific. Of the 76, all are operated by large businesses that are heavy users of telecommunications services. Included are 58 private microwave networks, three optical fiber networks, and six satellite networks. They represent substantial revenues already lost to bypass.

That heavy users are even now considering building their own networks is illustrated by recent news regarding the state government of North Carolina. A consultant has recommended that North Carolina purchase and install a microwave system that would cost from $25.7 million to $34 million. North Carolina recognizes that a decision to move toward a state-owned telephone system would involve a trade-off between lower telephone costs for the state and higher rates for other telephone users. Thus, North Carolina will leave its decision of whether to bypass the existing telephone company's network to its General Assembly. It cannot be expected that most heavy users of telephone service will give a second thought to abstaining from bypass to help keep everyone else's telephone rates down.

Alternatives also exist for smaller business and residential customers who are relatively heavy users. For instance, some businesses purchase bulk-rated long distance services from a long distance carrier and resell those services to groups of customers at overall rates that are lower than the long distance carrier's rate for long distance service.

Bypass and resale, described above, are real and are expected to grow at geometric rates. Studies filed with the FCC earlier this month indicate that $1.9 billion, or approximately 20 percent, of BellSouth's revenues are vulnerable to bypass of the local network through alternative technologies, special access, and resale.

In the immediate future, the greatest bypass threat is to the BellSouth operating companies' revenues from services to business customers. About 50 percent of BellSouth's revenues from regulated telephone services come from business customers. Three percent of those business customers, who are very heavy users, contribute 48 percent of our business revenues, and 16 percent contribute 72 percent of our business revenues. When those heavy users leave the switched access service of the exchange telephone company, the burden of the non-traffic sensitive costs that they were paying will be left for the remaining subscribers to bear. If we are not permitted to structure the price of access so that heavy users are not required to pay many times the non-traffic sensitive costs incurred to provide them with exchange access, bypass will increase and local rates will have to be increased to cover the non-traffic sensitive costs no longer covered by revenues from heavy users.

Now is the time to change the pricing structure. Failing to act will not deter bypass, but will constitute the incentive for bypass. Revenues lost to bypass while the restructuring of prices is delayed will be difficult and in many cases impossible to regain when the economic disparities in the access price structure are finally corrected. In particular, once a heavy user has invested in his own network, it is virtually impossible to regain his patronage of long distance that utilizes the exchange company's access services.

Recovery of non-traffic sensitive costs from the customers who cause the costs to be incurred is the solution to the bypass problem. Therefore, BellSouth strongly supports the FCC's access charge plan, which includes fixed, end-user charges for the recovery of most non-traffic sensitive costs. While the FCC's plan leaves some non-traffic sensitive costs for recovery in a usage sensitive charge, it represents a crucial first step toward the truly cost-based price structure that is essential in today's competitive telecommunications market.

I recognize that rational economics may not be very comforting to telephone subscibers fearful of rate increases, but ignoring economic reality in the short-term will only lead to much greater discomfort in the future. I do believe, however, that there is good reason for adopting a less apprehensive attitude regarding even the short-term impact of these changes in the pricing of exchange access services.

Small businesses certainly have no reason to expect to be harmed by these changes. Implementation of the remaining parts of the FCC's access charge plan (*i.e.*, end-user charges for residential and single-line business customers) will further reduce access charges paid by long distance carriers by almost 30 percent. Just as the implementation of end-user charges for multi-line business customers on May 25, 1984 was accompanied by a 6.1 percent reduction in AT&T's interstate long distance rates, the implementation of end-user charges for the remaining customers is expected to be reflected by a further reduction in long distance rates.

Columns A and B of Exhibit A show that the implementation of end-user charges on multi-line business customers on May 25, 1984, had minimal effect on business customers with from one to ten access lines. For single-line business customers, the net change was a reduction, since no end-user charge was applied to those customers on May 25th. For the business customers with from two to ten lines, the result of the implementation of the end-user charge was a small net increase in total billings for exchange and toll service. In absolute dollars, the average net increase ranged from $2.17 to $4.70 per month.

Columns C and D of Exhibit A show the net effect of the proposed implementation of the $4.00 end-user charge on single-line business and residential customers and a corresponding interstate toll reduction. For all but one state, the net effect would be a decrease in the average total telephone bill for small business customers in comparison to their bills prior to May 25, 1984. Furthermore, the implementation of the $4.00 end-user charge would result in an average net reduction of $4.96 for business customers with ten or less lines when compared to their current bills. Small business customers will, on the average, benefit from the FCC's end-user access charge plan.

If small businesses received no benefit at all from a reduction in toll rates, the net after-tax increase in their operating expenses due to end-user charges would be very small. It would, in fact, not be much more than the additional cost imposed on small business customers by the three percent federal excise tax that the Congress has imposed upon telephone service. Moreover, it is very likely to be substantially less than the increased cost imposed upon many small businesses by the last increase in the minimum wage (1981, + .25¢/hr., $10/wk). That action increased the labor cost of many small businesses by at least $520 per year for each full-time employee. By comparison, a maximum annual increase of $72 per exchange access line pales to insignificance. Similar comparisons could be made with other operating expenses, such as the recent increases in the Social Security taxes paid by employers, including many small businesses.

In addition, small business customers benefit indirectly from the economically efficient pricing of telephone service. A viable telephone system is an essential part of a healthy economy. If uneconomic pricing of exchange access is allowed to continue, the bypass that such pricing prompts may very well weaken local telephone companies financially. A financially troubled telephone company will not be able to maintain the level of maintenance and new construction necessary to provide even adequate telephone service, much less the high quality service that business customers require. Deterioration of the local telephone system can have the same kinds of adverse effects on a local economy as deterioration of other parts of the economic infrastructure, such as highways, roads, sewer and water systems, etc.

You have asked for comments about BellSouth's views on local measured service. We have filed tariffs for optional, local measured service for both business and residential customers in all nine states. Some of those tariffs have been approved. Most are in the process of being investigated by each state's public utility commission.

Local measured service is of critical importance to local telephone companies for the same economic reasons that flat-rate, end-user charges for recovery of the fixed costs of exchange access are important. It is economically sound to price all services so that the charges that customers pay reflect the costs that they cause. Just as some costs exist without regard to usage, others are caused by usage. Increases in local usage cause increases in the local telephone company's total costs. The objective of local measured service is to recover such increases in costs from charges to the customers whose usage causes the costs. Such a pricing structure affords the opportunity to generate additional revenue as usage increases, thereby reducing the need for recovering those increased costs in general rate increases for all customers. Exhibit B shows graphically the importance of revenues from local service to BellSouth's operating companies. Properly pricing services that provide over 47 percent of our total regulated revenues to reflect their costs is essential to our financial viability.

I know that you understand how important the maintenance of universal telephone service is to our national and local economies. It is of the greatest importance that we work together to meet the challenges posed by the restructuring of the telecommunications industry.

Ultimately, it will be necessary for us to agree on an approach to the pricing of telecommunications services that does not create artificial incentives for heavy users to abandon the local switched networks. Economic efficiency will not be attained by making distinctions between types of users that are unrelated to the level of costs and the nature of the costs that they cause. Irrational pricing of exchange access will not prevent heavy users from rationally turning to lower priced alternatives to the telephone companies' exchange access.

Although the subject of this hearing is telephone service for small businesses, I do want you to understand that the BellSouth Companies realize that for some truly needy residential customers the proposed changes in pricing structure may make basic telephone service less affordable. South Central Bell and Southern Bell are working with the public utility commissions in the states that they serve to deal with the problems that the economically disadvantaged may face in obtaining telephone service. This group may well be the target for special assistance to insure the availability of universal service, and we pledge our efforts to work with state regulators and legislators to that end. But, in our work to find a solution to the problem of affordability for the truly needy, we should not confuse that issue with the fact that as prices rise some customers may simply choose to leave the network because they believe the price of the service exceeds the value they receive from it. That group will do so out of choice, not economic necessity, and should not be the target for special assistance.

I thank the Task Force for giving me the opportunity to express BellSouth's views.

EXHIBIT A

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES
ON BUSINESS CUSTOMERS WITH FROM 1 TO 10 LINES

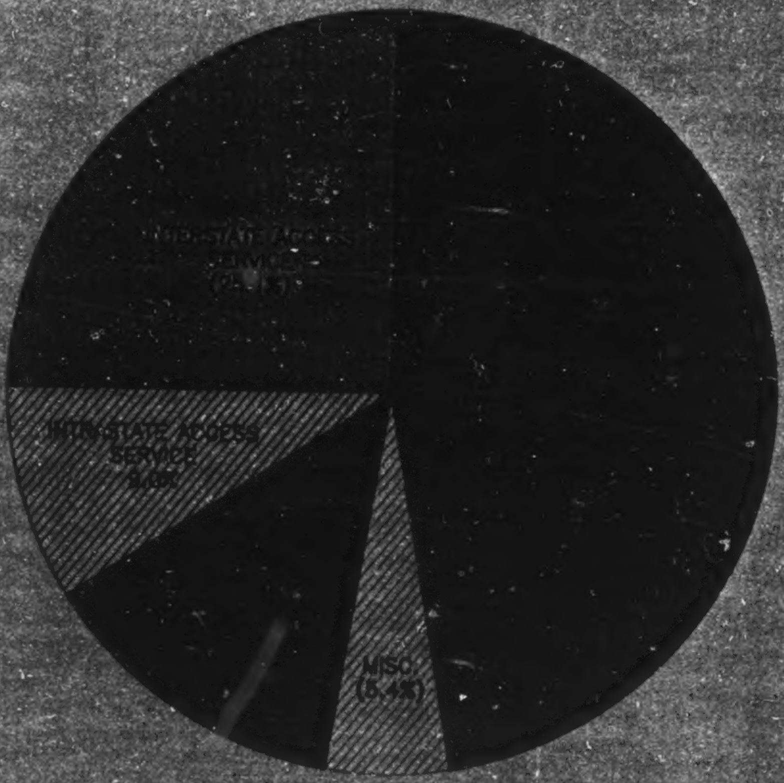
	May 25, 1984 Implementation of End-User Charge for Multiline Business Customers and 6.1% Reduction of Interstate Toll		Proposed Implementation of $4 End-User Charge for Single Line Business and Projected 21.3% Reduction* of Interstate Toll	
	A Net Change	B % Change	C Net Change	D % Change
AL	$3.27	2.1	$(1.77)	(1.1)
KY	2.77	1.9	(1.17)	(0.8)
LA	4.70	3.3	.87	0.6
MS	2.56	1.7	(1.88)	(1.2)
TN	2.34	1.5	(3.42)	(2.2)
FL	4.35	3.4	(1.11)	(0.9)
GA	4.19	2.8	(1.51)	(1.0)
NC	2.34	1.7	(2.08)	(1.5)
SC	2.17	1.5	(2.31)	(1.6)

*Includes previously authorized 6.1% interstate toll reduction.

Impact of end-user charges as indicated on this page do not include other telecommunications charges for business customers (custom calling services, customer premises equipment, directory advertising, etc.).

EXHIBIT B

OPERATING COMPANIES
1984 BILLED REVENUES
(SOUTHERN BELL AND SOUTH CENTRAL BELL)



Mr. WYDEN. Thank you for coming up to express your views, and it doesn't make sense to start with our next panel member. I am going to race over and hopefully I will be able to turn this all around in 15 minutes. I admire your perseverance.

It is a tribute to your interest in these issues, as you would put up with such a bizarre set of circumstances. Hopefully, we will be back in about 15 minutes. We will be recessed until then.

[A short recess was taken.]

Mr. WYDEN. One more try.

The task force will come to order and I believe Walter Bolter, director and James McConnaughey, research manager, Bethesda Research Institute are next. Gentlemen, I have my fingers crossed we will be able to make it and we will have some questions. You will one day see your families again.

TESTIMONY OF WALTER G. BOLTER, DIRECTOR, AND JAMES W. McCONNAUGHEY, RESEARCH MANAGER, BETHESDA RESEARCH INSTITUTE

Mr. BOLTER. Mr. Chairman, Jim McConnaughey and myself would like to speak on behalf of the Bethesda Research Institute. We are members of an organization that does independent research in areas of telecommunications and other research related fields. What I would like to do today is focus on parts of the bypass issue that really have been somewhat neglected in the current debate. For the most part, views that have been expressed in the States and in Washington at the Federal level have been those of larger carriers, either operating companies or regional telephone companies for the most part.

Neglected in these views have been the national implication of bypass, the problems of the business community, where large communications users are represented by both large and small companies which have very specialized telecommunications needs. In addition, I believe there has been a neglect—as the previous panel indicated—of the problems of small telephone companies, for whom bypass often means the abandonment of facilities and these companies often do not have growth that will absorb these facilities, thus they become "stranded" in the true sense of the term.

Last, I think a neglected area has been the position of small consumers in the bypass area. As the price of local service increases, these consumers have the ability, just like a business user, to bypass the telephone system. The phenomenon results, as in the case of large users, in the abandonment of facilities which sometimes are not picked up through the growth process, and of course the phenomena for consumers is that they simply drop out of telephone service picture all together.

So basically, for these neglected areas of bypass, what I would like to concentrate on are the data from user surveys that Bethesda Research has conducted. I will review the definition and measurements of bypass, national evidence that we have uncovered, and our surveys, in the State of New York and another in Maryland. Jim will then finish up by comparing some of the studies that we have conducted with the studies that have been conducted by other parties.

To briefly summarize my testimony—I would hope as Brian Moir asked earlier, that it could be made part of the record—let's first look at the definition or measurement of bypass. Earlier, I am sure that witnesses have talked about economic and uneconomic bypass. The difference being whether or not rates for services that are subject to bypass are based on cost.

An area of bypass that has been poorly defined I think is that of noneconomic bypass, or bypass of telephone company provided services because of the failure of the telephone company itself to satisfy user needs. Either telcos do not have the services that large communications users need or they don't provide these with the proper quality, reliability or service responsiveness that users demand.

Another area that I would like to talk about which we have introduced is the measurement of bypass. The alternatives that have been used, starting from one end of the spectrum, include simply accumulation of advertisements in magazines, the counting of microwave applications that have been submitted since the beginning of time, and other crude measures of bypass.

Better measurements might include counting the number of lines that have been lost by telephone companies to bypass or the revenues that they have lost. But few of these studies look at the percentage of business users' budgets that are devoted to bypass services. Other than user surveys very few look at the factor of telephone companies' responsiveness as an important ingredient of bypass decisions. In addition, very few look at the use of telephone company facilities where bypass has occurred, that is, use to accommodate the growth of other services, or applications in new services where bypass is not a factor.

Beyond the definition and measurement of bypass I would like to look briefly at national evidence, and that which has been provided through surveys of Bethesda Research Institute. By and large, national evidence has been presented by telephone company surveys. These generally indicate that between a quarter or a third of the largest customers of telephone companies are currently engaged in some form of bypass and that 40 to 70 percent of those users will engage in bypass from 3 to 5 years into the future.

For the most part, their conclusion—in terms of factors causing bypass—is that it is the cost or price of telephone company services to major users which constitutes the most important ingredient in the bypass decision. Some of this evidence has been put into doubt by the surveys that Bethesda Research and other surveyors have conducted.

For example, Bethesda Research conducted a study in Maryland which showed that 80 percent of C&P's largest users will still subscribe exclusively to telephone company provided services within the next 2 years. We found in that survey that carrier responsiveness, as opposed to price, was the most important factor in the decision regarding bypassing of telephone company facilities.

New York is the second example I would like to look at largely because if bypass is not a problem in New York's congested traffic markets, it is unlikely to be a problem anywhere. We conducted a survey in New York of large communications users which included both small and large companies. Respondents' revenues ranged from $18 million to $17 billion, and their employees ranged from 350 to 62,000, so that while all the respondents were large communications users, some were very small companies and some very large companies.

The most important result of the New York survey was that users were looking at bypass incentives largely in terms of the responsiveness of New York Telephone Co. to their needs, the types of services that they needed, and the quality and quantity of services that they needed.

The most important factor, was responsiveness, as contrasted with price, which seems to be the factor that the telephone company surveys dwell on. Indeed, out of 11 factors that were listed in the survey, price ranked eighth out of 11. That ranking was interesting when contrasted with nonprice factors.

For example, one of the questions was if all nonprice features were equal and New York Telephone Co.'s prices were 5 percent higher than those of bypass services, which of the two alternatives would users go with? The majority would stick with New York Telephone Co., even with that price disadvantage, where nonprice features such as responsiveness, were equal. Where nonprice features were superior, as provided by the New York Telephone Co., users would stick with the telephone company even if telco's price features were at a 10-percent price disadvantage, that is, 10 percent level higher than that of bypass company provided services. So it seems at least from those two examples, that service responsiveness is a major factor in bypass decisions. Price is much less of a factor in New York. Indeed it wasn't even ranked among the top five factors.

The conclusions that we reached by surveying the evidence that is available nationally and looking at State surveys, is, of course, that bypass has been occurring since 1959, but generally it is not a problem that is uniform across the country. Moreover, it is not yet of serious proportions and it doesn't appear to be a nationwide problem.

The solutions for bypass that have been advanced so far might, to some degree, have the wrong focus. Clearly their focus has been on price. While a factor, based on the evidence that we have provided, price is not the only major factor. The access charge plan or nationwide response of the FCC to bypass does not consider the fact that bypass seems to be a localized problem. The plan is a very blunt instrument for a very finely tuned phenomenon.

In addition, service responsiveness, which from our surveys is a major consideration of larger users in the decision whether or not to continue to employ telephone provided services, is not the issue that is emphasized in the solutions of the FCC and other bodies. But it is the major factor as far as large users are concerned, and these users are the bypasses that telephone companies seem to be concerned about. As far as solutions to bypass are concerned, it seems if service responsiveness is a major consideration in the bypass area, then, at least in part, the fate of the public telephone system resides in the hands of the telephone companies themselves.

Of course, these companies have market advantages which they can exploit, and at least right now, they do have the customers themselves. They do have advantage over bypass systems in that latter regard, if only because of inertia.

As far as regulatory solutions are concerned, we would recommend that these solutions move away from their focus on price as the only factor in bypass decisions of user.

In addition, we recommend that they consider the localized effects of bypass, since that is the way bypass in fact is occurring and they can consider localized solutions.

At this point Jim McConnaughey may wish to add to these thoughts.

Mr. McConnaughey. Good afternoon.

As Dr. Bolter has indicated, BRI has conducted user surveys in Maryland and New York, which I will briefly describe. I would like to contrast these with the surveys sponsored by large telephone companies in those specific states.

First, looking at Maryland, BRI undertook a survey of small and large users in the Baltimore-Washington metropolitan areas in September 1983. Among its findings are that local bypass is currently not a major telephone company problem in Maryland.

Second, bypass will increase to 10 percent for small users, predominately residential users, and 33 percent for large users in 2 to 5 years.

Third, by the late 1980's and early 1990's bypass will slow or even stabilize.

For small users, the two most important bypass factors based on the survey in Maryland, are responsiveness to customer needs and price. In those two areas C&P was rated good by the survey respondents.

For large users in the survey, responsiveness to customer needs and technical service qualities were the two most important factors. C&P rated excellent in terms of service quality but only fair to good concerning responsiveness to customer needs.

In terms of price, this factor was deemed to be relatively unimportant as a bypass factor. There were two different price elements, price and startup costs, and they were ranked sixth and eighth out of nine factors in Maryland. Other things being equal, 3 percent of small user and 87 percent of large users would choose C&P as their provider of local communications needs.

In contrast, the telephone company's study, which was submitted in March 1983, found the probable level of bypass in 3 to 5 years to be 68 percent, with service price being the main bypass factor cited in the survey.

Turning to New York, BRI surveyed the Committee of Corporate Telecommunications Users' members concerning bypass of New York Tel facilities during the period April through June 1984. In that survey BRI found that, like Maryland, most large users in New York do not currently engage in local bypass. Unlike Maryland, New York's large users responding to the survey expected to increase their bypass activity over a 10-year period, both in terms of number of lines bypass the telephone system and increasing percentages of local communications budgets being devoted to bypass.

Again, like Maryland, responsiveness to customers' needs was overwhelmingly the most important factor cited and this was also the area in which New York Tel's services performance was rated the lowest.

In addition, as in Maryland, price factors were deemed to be relatively unimportant. As Dr. Bolter indicated, they were very lowly ranked: 8 and 9 out of 11. The majority of users indicated a preference for Telco offerings over those of bypass providers if all other things were equal, and were frequently willing to accept somewhat higher prices in return for superior non-price performances.

Touche-Ross performed its own survey in March and April 1984 in New York and their results were that bypass is currently a reality with one out of three of New York Tel's largest customers already engaging in bypass.

Second, New York Tel's estimated revenue losses due to bypass is $34 million in 1984, and increases to $147 million in 1987.

Third, over 50 percent of New York Tel's largest customers will bypass within 3 years.

Fourth, the primary motivation for bypass decisions is price or cost related.

In terms of looking at what we view as basic deficiencies or shortcomings of telephone company sponsored studies, first, telephone company studies that we examined tend to overstate or overemphasize the current and near term level and significance of bypass. For example, in Maryland, the bypass analysis failed to indicate the percentage of a user's local budget devoted to bypass. Instead, a "binary approach" was used. The question posed was essentially, "Do you bypass, yes; or do you bypass, no?"

In Maryland, frankly the Telco data showed that no bypass was currently occurring.

Third C&P's ability to respond with services or technological improvement was virtually ignored as a factor in the telephone company's study.

Turning to New York, telephone company survey data in fact shows that less than 20 percent of users bypass in New York State in terms of actual operating systems.

In addition, although it differs from Touche-Ross' testimony submitted today, the Touche-Ross' study in New York generally underemphasized the importance of the percentage of a user's local communications budget being devoted to bypass. There was a greater stress on what I call the binary bypass count and lost revenue analysis.

Looking at Touche-Ross' revenue impact study shortcomings included the fact that New York Tel's revenue growth was largely overlooked. For example, during the 1982-83 period, the growth in New York Tel's revenues was approximately four to six times the level of estimated revenues lost to the bypass in 1984.

In addition, there are some questionable assumptions that are used. For example, one is that where a respondent is expected to bypass for all of its traffic that the respondent's traffic can indeed be shifted to bypass alternatives.

In addition, the telephone studies explicitly fail to elicit responses concerning the telephone company's service performance per se.

Finally, telephone company results contrast with those of most of the studies sponsored by users, that is, those who, by definition, actually make the bypass decisions, and who stress the importance of nonprice factors.

Thank you very much.

[Mr. Bolter and Mr. McConnaughey's joint prepared statement follows:]

PREPARED STATEMENT OF WALTER G. BOLTER, DIRECTOR, AND JAMES W. McCONNAUGHEY, RESEARCH MANAGER, BETHESDA RESEARCH INSTITUTE

Good afternoon. The Bethesda Research Institute (BRI) welcomes this opportunity to present our findings and conclusions on the issue of telephone "bypass." As a member of the research community, the Institute generally seeks to provide independent analyses, investigations and other services in crucial policy areas, but particularly telecommunications, specializing in such matters as these relate to economics, accounting and finance.

Telephone bypass is clearly one of the most significant policy issues in telecommunications today. Although it technically may have existed for a number of years (e.g., use of telephone company private lines in lieu of the local public switched network), the phenomenon has attracted widespread attention only recently as competition has been introduced in traditionally regulated monopoly markets.

Specifically, this statement responds to questions posed by the Committee on Small Business' Special Task Force on Telephones concerning bypass definitions, evidence, and prospects.

Bypass Defined

Definitions of "bypass" abound. Some stress circumvention of established common carrier (ECC) facilities used for long distance service. Others emphasize the use of alternatives to the local telephone exchange. A third grouping centers on the avoidance of both toll and local plant.

There are other dimensions to bypass, as well. It can involve ownership of private systems (e.g., private microwave, and fiber optics networks) or subscription to nonECC bypass services (e.g., interactive cable television, and cellular radio). Its effects can be felt at the intraLATA or (for nonBell operating companies) interLATA levels. Bypass services may carry voice, data or video, and may be transmitted over analog or digital based technology.

In general, we will focus on the local bypass phenomenon and especially circumvention of the local public switched network (LPSN), whether by privately owned or leased alternative facilities or services. Viewing "local" bypass in a broader sense, i.e., as the utilization of alternative (nonECC) plant or services, may also prove useful, especially in determining the outer bounds of the activity through surveys of users.

One of the most important distinctions for policymakers concerns the difference between "economic" and "uneconomic" bypass. Although both serve to reduce local telephone company revenues, their respective impacts on allocative efficiency may differ significantly. Cost based rates or prices form the basis for any economic bypass decision, while noncost based rates create the potential for uneconomic circumvention of ECC facilities. According to economic theory, the failure to set prices on the basis of costs will lead to distortions in (relative) prices, misallocations of resources and general inefficiency. The resulting "uneconomic" bypass may specifically be attributable to local ECC costs that are artifically increased or rates that are otherwise inflated, or bypass providers whose costs are underallocated or prices understated.

Two other types of bypass which policymakers need to address are "noneconomic" and "internal." Noneconomic bypass occurs when a telephone company fails to meet user requirements, causing them to seek alternative sources of supply. These may include such considerations as service quality, reliability, availability and flexibility. This form of bypass can exist with or without cost based prices. Internal bypass arises when a facility or service offered by an ECC (or its affiliate) permits a user to circumvent the LPSN. Examples may include ECC private lines or cellular radio services provided by an entity affiliated with the ECC.

Bypass activity may be measured in a number of ways. Attempts to gauge its incidence include, inter alia, a determination of ECC revenues or customers "lost," the number of private microwave system applications pending or granted, or a count of private lines "dropped." None of these measures taken individually is completely satisfactory, however, because of various deficiencies. Counts of lost customers or nonECC systems or lines (for comparison with ECC figures) ignore volume-of-traffic considerations. Revenues lost to bypass providers is an improvement but also is flawed because this measure fails to reflect ECC shortcomings. Thus, a revenue amount purported to represent bypass incursions would likely be overstated since it would inappropriately include those cases where a telephone company was unable to provide service requested by a user; this might be ascribable to availability or capacity problems (i.e., noneconomic bypass). In short, no single measure has been identified that appears to accurately gauge the extent of bypass.

National Results

Numerous studies of the incidence of bypass have been undertaken in the last two years. The majority of nonproprietary

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studies conducted during that period were commissioned by telephone companies, especially former members of the Bell System. These studies generally conclude that bypass is a reality today, particularly among large users, and that new bypass technologies will be introduced and applied at a significant level in the future. They also find that "uneconomic bypass" is primarily caused by the mispricing of local telephone company services. This form of bypass can be ameliorated through rapid modernization of ECC plant and the use of cost based pricing for access and other local exchange services.

Table 1 presents a sample of bypass study results for a variety of scenarios. Concerning bypass activity in a single telephone company's multistate service area, a survey conducted by Touche Ross in January 1983 found that 24 percent of Southwestern Bell's largest customers at that time elected to use some form of bypass. Moreover, 65 percent of those contacted responded that they currently employed bypass technologies or expected to do so within the next three years. The cost of ECC services and service quality were reasons found to be mainly responsible for users' bypass activity in that region.

A different setting is one where a given telephone company's operations are concentrated in essentially one state. In

TABLE 1
BYPASS STUDY RESULTS

Study Area	Extent of Bypass			Timeframe
	Large Users+	Small Users+	Revenues Lost	
1. Southwestern Bell (five states)				
- Touche Ross*	24%	-	-	1983
	65%	-	-	1986
2. Pacific Telephone and Telegraph (California)				
- Touche Ross*	23%	-	-	1983
	45%	-	-	1986
- Pacific Bell			$166 Million	1984
			232 Million	1985
			810 Million	1986
3. Michigan Bell Telephone Company (Michigan)				
- Touche Ross*	25%	-	-	1983
	54%	-	-	1986
4. C&P Telephone Company (Maryland)				
- Peter Merrill Associates*	68%	-	-	1986-88
- Bethesda Research Institute**	20%	5%	-	1983-85
	33%	10%	-	1985-88
- Bell Atlantic	21%	-	-	1984
	25%	-	-	1984-86
5. All Companies (Nationwide Est.)				
- Perspective Telecommunications Group**	-	-	3%	1986
- International Resource Development**	-	-	5%	"soon"

+ Includes those survey respondents who indicated that they currently bypass or plan to bypass local telephone company facilities for a portion of their communication needs.

* Sponsored by telephone company.

** Privately conducted study.

Source: Bethesda Research Institute estimates, copyrighted 1984.

California, Touche Ross' May-July 1983 poll of the largest customers of Pacific Telephone and Telegraph Company (now Pacific Bell) determined that 23 percent of those surveyed currently engage in bypass. In addition, 45 percent plan to use bypass technologies in the future. Reasons cited as a basis for bypass included lower costs (40 percent), higher reliability (12 percent), and improved service (12 percent). Subsequently, Pacific Bell estimated revenue losses that it expected to suffer under the existing regulatory structure. Calculations include $166 million for 1984, $232 million for 1985, and $810 million for 1986. A mid-region example of an ECC serving a single state is Michigan Bell where 25 percent of large users surveyed in 1983 currently bypass and 54 percent expect to do so by 1986.

Some states have been the focus of more than one such study. In Maryland, a January 1983 study by Peter Merrill Associates on behalf of Chesapeake and Potomac Telephone Company found that 68 percent of the 22 largest C&P customers expected to use bypass alternatives within the next three to five years. Later that year, Bethesda Research Institute (BRI) conducted a survey yielding different results. BRI found that local bypass is not a major exchange carrier problem as yet in Maryland. For instance, BRI found that 80 percent of large users will still subscribe exclusively to C&P after two years.

According to respondents of BRI's Maryland study, by the late 1980s or early 1990s growth of local bypass is expected to slow or even stabilize. Interestingly, the most important factor cited for bypass by both large and small user groups was the carrier's responsiveness to customer needs. Least important was C&P's innovativeness. Price was deemed to be a significant factor for most small customers, but not for many large users, although price was important to some large customers.

In 1984 Bell Atlantic completed its own study of large users in the Middle Atlantic region (which includes Maryland). Basically, the Regional Company found that 21 percent of these customers currently bypass, and that one in four of those surveyed are considering bypass alternatives within two years. However, earlier this month C&P of Maryland stated that it has not presented conclusive studies on lost revenue from competition because "there are none."[1]

Indeed, meaningful evidence of bypass activity is frequently difficult to obtain. For instance, in a current Massachusetts generic proceeding (DPU 1731), New England Telephone Company has provided many examples of bypass technologies that users may employ to circumvent its facilities. But the company has little knowledge of these technologies' actual deployment. NET furnished the Department of Public Utilities with the number of private microwave systems that exist in Massachusetts, but "does not know how all of these systems are used."[2] Also, data concerning "any partial or complete bypass known or suspected by NET to have occurred in Massachusetts in the last five years is not available."[3]

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[1] "C&P's Motive For Increases Questioned," Washington Post, "Washington Business" Section, p. 1, September 10, 1984.

[2] April 5, 1984, response to AG-9, DPU 1731.

BRI State Results: New York

As the "Information Gateway of the World," New York City's importance as a target for telecommunications service and equipment suppliers is very difficult to overestimate. The provider of the bulk of communications needs in this area historically has been New York Telephone Company (New York Tel), which ranks among *Fortune's* five largest utilities (in terms of assets). Given the high stakes involved, the threat to this traditionally secure communications monopoly posed by aggressive bypass vendors cannot be taken lightly.

In terms of technology, New York Tel appears to be a formidable competitor. Approximately 37 percent of the total fiber optic cable installed by former Bell System companies is located in New York Tel's network. Its famous "Ring Around Manhattan" gives it one of the most modern networks in the world, linking 13 telephone company switching centers. The company can boast that it was the first to use local digital switches and is rapidly installing 100 new digital switching centers serving over 500,000 access lines in New York. It was also a pioneer in the use of computerized switchboards and possesses one of the largest mainframe computer networks in the world.

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[3] *Id.*

An area where New York Tel's circumstances have apparently made it much less proficient is quality of service. Backlogs of held orders for lines and equipment, problems with service forms and ordering procedures, and repair deficiencies were commonplace during the first half of 1984. Coupled with the sophistication of New York City telecommunications users and the fact that the city has the highest concentration of WATS and special service customers in the United States, New York Tel's recent service problems may create bypass headaches for the company.*

Given this backdrop, BRI conducted a survey of large communications users who are members of the Committee of Corporate Telecommunications Users (CCTU), which is a nonprofit corporation consisting of many of New York State's and the nation's leading companies. Responses were received from approximately one third of the CCTU members who secure a significant portion of their local communications service needs from New York Tel. Annual 1983 revenues of the respondents ranged from $18 million to $17 billion, while their total number of employees ranged from 350 to 62,000.

Survey responses reveal that most of these users do not currently own or subscribe to local bypass alternatives.

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*New York Tel indicates that it has apparently made some improvements in handling its switched telephone service access and WATS/private line end link service requests.

Respondents indicated, however, that the likelihood of these nonbypassers circumventing New York Tel's facilities in the future will increase over the next two-to-ten years (from 38 to 75 percent). Furthermore, bypass services or systems will apparently comprise a major part of many large corporate user budgets for local communications within five to ten years.

The responses indicated that New York Tel's performance in nine areas was mixed. The Company received "fair" to "good" ratings in some areas that users find significant, *e.g.*, maintenance (the second most important decision making criterion) and experience, and generally "good" to "excellent" in categories considered less important by survey participants (statewide presence, financial resources and staying power). Respondents rated it lowest, however, in the decision making area deemed most critical by these users: responsiveness to customer "needs" (*e.g.*, availability, flexibility, reliability of service). The Company also received only a grading of "fair," on average, for the third most important factor, technical service quality.

Based on responses to a series of questions relating to price and nonprice variables, BRI concluded that *nonprice* considerations would be largely responsible for planned bypass activities of these customers. More specifically, survey results revealed that if New York Tel and a bypass provider offer equivalent nonprice features, then the telephone company would probably receive the user's business even if its "price" is 5 percent higher. A demonstration of New York Tel superiority in any one nonprice category, such as responsiveness to customer "needs" or technical service quality, will capture the corporate user's local communications business notwithstanding a price disadvantage of 10 percent. Greater innovativeness or a more solid financial "staying power" will also tend to attract users despite a BOC price which is 5 percent higher.

Based on survey responses received, New York Tel's current service problems are generally perceived by business users as quite serious. Its service quality and responsiveness to customer "needs" have both deteriorated in many instances during the post-divestiture period. Current quality of service was generally described as "poor" or in similar terms. Service responsiveness or quality experienced some deterioration, but was frequently characterized as only "fair" both before and after divestiture.

General Comments and Conclusions

Clearly, bypass is occurring today. But, it has also occurred in the past, having been inaugurated long ago with the adoption of the "Above 890" Decision in 1959. Since that time, circumvention of telephone company facilities has generally been sporadic and nonthreatening to ECCs, at least until very recently. Based on our work in this area,[=] BRI believes that the incidence of bypass is not as yet a uniform problem of serious proportions nationwide.

Nevertheless, bypass activity may well be more significant in the future. And a determinant of the level of local bypass, for at least large users, will generally be the service performance of telephone companies. Failure to provide and maintain wideband and other services sought by such customers on a timely basis promises to encourage (noneconomic) bypass of substantial magnitude.

But, telephone companies may hold the solution to the bypass threat "in their own hands." For example, they may significantly gird themselves for bypass by stressing attentiveness to customer needs, future modernization of network plant, and maximally efficient operations. A majority of users have indicated their preference for telephone company offerings over those of bypass providers, ceteris paribus, and in many instances are apparently willing to accept somewhat higher ECC prices in return for superior nonprice performance.[*]

In summary, it should be incumbent on ECCs themselves to fully utilize their inherent marketplace advantages. Public

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[=] Besides user surveys and other analyses in state proceedings, BRI has undertaken an in-depth examination of local bypass (and other policy issues) at the behest of the Annenberg School of Communications (Washington Program). The report, entitled Telecommunications Policy in the 1980s: The Transition to Competition, is scheduled to be released this Fall.

[*] These are the conclusions of studies conducted by, inter alia, BRI, Perspective Telecommunications, and Communications Week.

policy makers should encourage these companies to provide quality offerings which meet customer needs consistent with public goals and objectives. But, more empiricism on the subject of bypass activity should also be elicited, particularly from a more balanced representation of affected parties. To date, most bypass evidence has been submitted by large ECCs; more user groups, small telephone companies, and competitors must be heard.

Mr. WYDEN. We clearly have a difference of opinion, which is what a good hearing is all about. Unfortunately, once again, I have to trek over to vote. I will try to come back briefly, and you will get home to see your families tonight. I want to make that clear, and if you feel you can bear with us for a few more minutes, I would like to ask some questions when I get back.

Thank you.

[A short recess was taken.]

Mr. WYDEN. At this point, I am convinced that this hearing is about to be entered into the Guinness Book of Records. I particularly want to thank you five. You have been exceptionally gracious.

I knew things were getting a little out of hand when the door was locked. I thank you all. This has been a very important panel, and surely shouldn't have been subjected to this kind of chaos.

The panel is closely divided on the issue of bypass. I want to ask a couple of questions that would help get a little more background for the committee on this issue.

It is clear that there is greater support for economic bypass, because of its competitive aspects than there is for uneconomic bypass.

I would like to ask each one of you how much bypass there is in your view for economic reasons, which I would say means bypass below the telephone company's cost. And, how, second, much bypass in your opinion is uneconomic, where it is above telephone company costs, but below telephone company prices.

If each one of you, so we will get four answers, would take a rough shot at that, I think that would be very helpful. We will leave the record open, and understand that you can elaborate on your answers.

Give us a rough appraisal of what you think here. Mr. Faust?

Mr. FAUST. Well, Mr. Chairman, I couldn't give you a number right off the top of my head, because we haven't tried to keep track of bypass until fairly recently. We can attempt to get the numbers for you, but I guess a point that I think is relevant here is that the primary threat that we see, in terms of bypass in the BSC is the bypass that I would characterize as being uneconomic, which is caused by the disparate rate structure of the interexchange carriers.

They are sitting there with one-third of their cost structure tied to the nonsensitive traffic cost burden that they are picking up. You have AT&T, Sprint, GTE, and all these folks are struggling for market share.

The bottom line of it is that they have to figure out a way to reduce their costs, and the most logical way is to bypass the local exchange.

I don't know whether you call that economic or uneconomic bypass, but whichever it is, that is the most threatening thing from my perception, from where we sit.

Mr. WYDEN. The numbers?

Mr. FAUST. I said I didn't have the numbers. We will get them for you.

Mr. WYDEN. We will hold the record open. That is the key question. Presumably, we want to promote competition, which I perceive is economic bypass, because it is below telephone company costs. We don't want to promote uneconomic bypass, but we will leave the record open, and we would very much like to hear from Bellsouth on that.

Mr. FAUST. All right.

[No additional information was provided.]

Mr. WYDEN. Move right down the line, Mr. Moir.

Mr. MOIR. Thank you, Mr. Chairman.

Again, I don't want to sound redundant to the previous witness, but we don't have specific data. I have been flipping through some of the data at the back of our study, and it is clear that in both categories, cost was not the major factor. I wanted to see the relationship between the cost factors for systems that have been put in because of the rate increases that we have been experiencing with private lines.

Initially, that didn't show. In other words, even though we have been experiencing a lot of price increases from the carriers, the increases were not enough to justify the cost differences that we have seen.

Mr. WYDEN. Based on your studies, this issue of economic or uneconomic bypass really begs the question, are there too many other considerations?

Mr. MOIR. The study we did was solely where the user builds and operates a communications system, puts in a microwave system. The other people here in their studies have included facilities that are actually owned by carriers.

Remember, the lady that spoke on the previous panel? EAS, WATTS and private line, those are all services for which her company actually owns the underlying transmission capacity.

It is just that they are getting a lower subsidy component.

Mr. WYDEN. I will hold the record open for you as well.

[No additional information was provided.]

Mr. WYDEN. Just as an aside, again, this is another reason to go slow on letting this bypass issue drive the system. People can't even say what it is.

You two have moved outside of what I thought was the accepted definition to the extent that anything is accepted. I have been saying that some people call it the boogeyman of the system, and the more I hear about it, the less I think we really know about what is going on.

Mr. MOIR. I have been dying for you to give me an opportunity to address that. I may have some reasons as to why this thing has been called a bypass boogeyman.

Mr. WYDEN. We will get to that, before breakfast.

Mr. Kraemer?

Mr. KRAEMER. I don't think the question of economic versus uneconomic bypass can actually be answered.

In our experience, the people making bypass decisions are making them for price reasons. They don't really get at underlying costs. They just know what the pricing alternative is to them.

If you analyze telephone company price and cost relationships, you have to look at whether or not you talk costs, average or marginal costs. And, when you begin to look at bypass alternatives, you may understand what the price is, but there is no data of what the cost is, for example, the cost of microwave. Many bypass alternatives are priced at a discount.

It could be priced at a 10- or 20-percent discount, not a cost-based pricing in that sense and given all those variables, except in a hypothetical sense of comparing a microwave versus a telephone company service, you cannot make that analysis.

Mr. WYDEN. Again, I find this so baffling, because your testimony dwelled on the fact that it was costs and prices that were so relevant, as far as people bypassing the system.

That is what your testimony focused on, costs and prices, dollars and cents, and yet when I try to go further to differentiate between economic and uneconomic, we can't do it. I think it can't be both ways.

Mr. KRAEMER. The emphasis is one the fact that to a user, the price of alternatives, which is his cost, he will go for the least cost alternative. I did not testify or try to emphasize cost-price relationship, say, when the telephone company, I just indicated that to the extent that prices are not competitive, they will lose business.

I did not try to analyze why they are not competitive.

Mr. WYDEN. If you say you talked about the end user, the price to the end-user rather, and the cost to the Telco's, I would say those two are related. I like to call end-users voters. The price to the end-user is directly related to the situation, the cost to the telephone companies, so we may be talking about semantics.

We don't know very much about this mythical, elusive concept that is driving the system.

Mr. KRAEMER. The issues are the possible policy judgments or alternatives that are being considered, and most of those I listed are being considered by one or more State commissions, they do affect the price of telephone company service to large users.

They are not striking at the cost side of that equation. They are looking at the price and there are a whole series of ways of adjusting price to the large users that are under consideration.

Mr. WYDEN. Mr. Bolter?

Mr. BOLTER. Your question was whether the preponderance of bypass that has occurred so far is economic or uneconomic. I guess my answer would be, if the economic category includes the noneconomic phenomenon we talked about earlier, that is, availability of services and the quality of service, and that type of thing, one can conclude broadly, not specifically, that most of the bypass that has occurred is probably economic. This is true for a couple of reasons.

One of the factors cited for bypass is the overall level of costs of local to long distance circuits. That phenomenon didn't begin to be important, we are told, until the Ozark separators plan came in existence in 1970, and wasn't a real problem until toll usage picked up at the end of the 1970's.

Since bypass has been occurring since 1960, at least some 20 years of the roughly 25 years of intervening experience, involves a period where the bypass factors have been economic. The other factor I would say, to err on the side of economic bypass is the fact that the type of bypass systems that have been put into place, that is, microwaves, satellites, and facilities to satisfy wideband and data service needs or to accomplish junctions for users that were not being satisfied by telephone companies, are again, the result of economic rather than uneconomic reasons.

Based on those two factors, most of the bypass that has occurred has been of the economic variety rather than the uneconomic variety.

I would point out in passing, though, that as far as the uneconomic variety is concerned, definitions there get hazy because you have to define costs, and because they bring up cost allocation questions.

The point I would like to make is when you bring up the cost allocation solution to bypass, which is what the access charge decision of the FCC is all about, you are talking about a very blunt instrument. But the bypass phenomenon, to the extent it is a problem, is not a nationwide problem, but a specialized, localized problem.

So, if uneconomic bypass is going to be a factor to be reckoned with, the direction for taking care of it on the costing side will have to be more finely tuned.

Mr. McConnaughey. Based on our surveys, there is apparently, relatively speaking, very little bypass of any sort, so in terms of the current status of bypass, it is not a concern.

For what is coming down the road in terms of bypass services related to the intentions of bypass users and prospective bypass users, noneconomic considerations seem to be the main factor, and as Dr. Bolter pointed out, noneconomic factors probably rightly belong under the category of economic bypass.

So, in a nutshell, it is very hard to discern between uneconomic and economic bypass, but today, bypass generally has not really been a problem of any magnitude.

If I could add one more thing, the concept of relative prices is very important. In our surveys in New York and Maryland, we found that a 10-percent, higher telephone company price in many instances would be offset by superior nonprice or service performance by the telephone company, so the water is a little bit muddy, as far as that goes.

Mr. Wyden. Thank you.

We will hold the record open on that point.

[No additional information was provided.]

Mr. Wyden. Mr. Kraemer and Mr. Faust, you heard the witnesses this morning, or I think you were here for a part of the earlier hearing.

One of the things that they argued was that if bypass is so pervasive, it is not going to be deterred with just a $5 access charges, but it is going to go on anyway.

In fact, their argument was that all it would mean is just more costs for consumers and others, the access charges on top of the costs that are brought on by bypass.

Do you two gentlemen share that view? Do you think suddenly if we add on these $6 access charges that the bypass threat is significantly diminished?

Mr. Faust. Yes, my testimony stated, Mr. Chairman, that we believe in the BSC that the bypass potential will be reduced by about 50 percent with the implementation of the $4 access charge on single line busin~~ess and residence cus~~tomers.

The vulnerability is going to be reduced by roughly 50 percent. That does not mean it totally eliminates it. For every dollar that we shift to the end user, if you can reduce the bypass potentially 50 cents, that is 50 cents that somebody is not going to have to pick up in higher rates somewhere down the road.

Because we have got a sunken investment on a local exchange network and if the interexchange carriers and private systems and whatever bypass our network, we have still got those costs to be covered, and sooner or later, it is like the Fram oil filler, pay me now or pay me later.

That is what we are faced with.

Mr. **Wyden**. That is inconsistent from what we heard earlier, people like Mrs. Brown from Tennessee and similar places.

Mr. **Faust**. She was talking about rural areas, and I would agree with you that in some rural areas, you heard the gentleman from New Mexico talk about that nobody ever came out there because the MCI's and the other interexchange carriers didn't see a market potential there.

Where the bypass threat exists is where you have the high density, in the Atlanta's, the Birmingham's, Miami's, in the New Orleans', Nashville, Memphis, et cetera, and that is where the high density is, and that is where it is easiest for bypass to occur.

Mr. **Wyden**. Do you share that view, Mr. Kraemer? Is that your position as well, if we have these $6 a month access charges, will that significantly deters bypass?

Mr. **Kraemer**. I think any policy decisions which result in lower charges for services to large businesses would reduce their incentive for bypass, and many of the things I have mentioned here are ways of decreasing the price of their services, and therefore, their incentive to bypass, and one of those was flat rate access charges, assuming that that is also flowthrough and allows lower prices to larger users.

Mr. **Wyden**. Are you afraid that if local rates go up, that that is going to promote local bypass.

In Tennessee, there is an effort to raise the rates by more than 100 percent. Is that a concern of yours as well, Mr. Faust?

Mr. **Faust**. The question again was if local rates go up, what now?

Mr. **Wyden**. Will that promote local bypass?

Mr. **Faust**. The local rates are below cost, and that is a fundamental point we need to understand. Our costs indicate to us that the average, the flat rate individual line is somewhere in the $30 range, and our average price is somewhere in the $15 range. So it is below cost.

Mr. **Wyden**. You just keep coming back to access charges which adds on the bill?

Mr. **Faust**. You know, the way I come out of this thing is that local rates need to go up to cover their costs, and similarly, you are going to find that long-distance rates will be coming down. You have already had a 6-percent reduction in long-distance rates, and I am assuming that if the FCC's plan is implemented in any way, whether it is $4 or $2 or $6, whatever, that there could be a concomitant reduction in interexchange long-distance rates, because the interexchange carriers have the incentive to get their prices down so they can be priced competitive with one another.

Mr. WYDEN. We had today representatives of urban areas, small businesses, rural areas and small businesses, and they said the equation, sir, didn't add up. Their long-distance bills didn't decline much and their local bills went up a fair amount. When it is added up, they are behind the eight ball. That is what I fear is going to happen to the small users in this thing.

I think it is even more likely to happen in the South, where there is a disproportionately large number of rural areas, in your area and in my area, the South and the West, where there are a lot of small rural areas, not as many of these densely populated areas.

It didn't work for small businesses in urban areas either, let alone in the rural area.

Mr. FAUST. Mr. Chairman, if the problem that the interexchange carriers, the price structure problem is not fixed, they are going to bypass us.

If that problem is not solved, then the rates are going to wind up, the local rates are going to have to be higher for the people who are left on the network than they would otherwise be, even if you put on an access charge.

Nobody likes the idea of a price increase, and I understand that, and I accept that. We are very much concerned about affordable service and very much concerned about the people who are economically disadvantaged, and I think we can and should work to try to figure out a way to solve their problem.

But the reality of the fact is that we have got a sunken investment in our case of something like $20 billion out there in local exchange planning.

If the most lucrative or the most highly revenue-producing customers that we have, which are large business users, begin to drop off the network, the only people that are left to pick up that investment, the return on expenses, are the one- and two-line business customers.

Their rates are going to have to be higher in the long run. I don't want to see that happen, and that is why we support the end user charge plan.

Mr. WYDEN. That is a very eloquent explanation of what I call supply-side telephone service. Give the breaks to the people at the top who make a lot of long-distance calls, and maybe you get a large enough revenue pool to keep some of the rest of the people going.

But what we hear today is that for these people, small businesses, their bills are going up and up and up. In my home town, we have churches running community phones because people can't afford their individual phones.

Some of those who are well-to-do are going to get some rate breaks. In the long run, you are going to get hurt, too, because the telephone takes two to tango. Some of the well-to-do people are going to want to call some other people who are not necessarily well off financially.

It is late at night, and I am not going to belabor this, but we want to work with you and others who share your view to allocate these costs fairly.

But I think we are rapidly moving toward a two-class phone system in this country, where those who are well off are going to share the fruits of what you are talking about, and those that are not are trying to hang on and may not be able to.

We want to work with you to come up with some fair allocation of costs. I would hope, as you think back through these witnesses and look at the record of this hearing in the days ahead, you will be willing to look at some new approaches as well. I think this problem is causing a lot of Americans to fall further and further behind in this era of communications.

Mr. Kraemer, just one question for you. For illustration, say that large customers make 50 percent of the calls, and you said in your testimony that one in four bypass the telephone system with 10 to 20 percent of their traffic.

Now, the staff did some calculations, and what they found is that, using your data, from 1.5 percent to 2.5 percent of total traffic would then bypass the local BOC's.

Is that so threatening? Is that such a serious situation?

Mr. KRAEMER. The numbers, the dollar values we generated in New York are relatively accurate, $34 million, and it is $147 million in 3 years, and that probably amounts to, in terms of New York telephones, net operating income somewhere in the neighborhood of 3 or 4 percent.

If the problem gets worse because we don't have a lot of interexchange carrier bypass, the right to interconnect, those numbers will go up.

You are at a focal point right now where you can affect the future, and as I said, no major telephone company is in danger of bankruptcy at this time.

Mr. WYDEN. Would any of our other witnesses like to elaborate on that point?

Mr. BOLTER. Let me just make one comment. You put your finger on the issue here, and that basically is, who is going to pay for the costs of the telephone system? What is going on now is a shifting of the costs of long distance into local, which makes telephone company-supplied services more attractive than bypass services of outside suppliers.

Telco service, in effect, is priced at "zero" once we move completely to an access charge system if nothing is to be charged to carriers. The policy issue along the way is, as those costs are shifted to other areas of the population, what happens with dropoff?

Are we committed to solving the bypass problem through an access-charge-type solution that may result in a good proportion of population having no telephone service? Right now, I don't think a strict solution of the type that is being advocated is fully acceptable from a public policy standpoint.

Mr. WYDEN. Mr. Moir, you have some theories about what is moving this creature?

Mr. MOIR. When you reflect, the first time the people on either side of me talked about the issue was shortly after the divestiture. I think you have to realize that these people were talking about one carrier bypassing another, AT&T bypassing the BOC's. The issue has been a carrier-driven issue, either BOC or interexchange, and what has happened is that AT&T has managed to take a bogeyman off of their shoulders, and they have successfully dumped it on the user community.

The rhetoric on the issue about a year ago, was that everybody thought of bypass as a user microwave issue and no longer an issue of AT&T bypassing the local telephone network. If you take it to its full extreme, there is not any major company that is going to stop being a major customer of the local phone companies.

You look at the things that service-oriented companies are in business for, and if people can't call them, there is no other way they can do business. So, they can't totally bypass a network.

Users' main goal is to drive their costs down, and that has driven much of their discussion.

From the operating company standpoint, they have been saying basically two things.

Some have clearly wanted to build a wall around themselves, thereby allowing no competition.

Some have even said, "We don't want intra-LATA competition."

At the same time, some of those operating companies are saying, "deregulate us," then they will take some of the same statistics and try to say, "Let us into new activities, but not like everybody else."

They have talked about level playing fields, letting them into switching services, et cetera, and letting them do it on the same basis as everybody else.

They will say "cost-based pricing". Yet, some of their applications filed at the commission say they are going to provide the trunk for themselves at cost, and charge everybody else a higher price.

They are going to provide the Rotary groups within the central office to themselves at cost and charge all the other people who have been in business a number of years a higher price.

That is why the lead into my discussion earlier was that bypass is only a part of the overall discussion, and we have to understand where the various parties are going in the overall discussion, and how they are utilizing the bypass discussion for some other purpose.

The user community wanted to extrapolate data on customer-owned and operated communication systems, and the data shows that user bypass isn't a problem. It is interesting, the other people commenting at the FCC have not attacked that point.

Mr. WYDEN. What you are really saying is bypass is just being held out as a multipurpose kind of catchall. You can carve out anything that makes sense for you in a business context, nothing wrong with that, free enterprise, and you could say you had to do it because of bypass?

Mr. MOIR. It has been used for a variety of purposes.

Mr. WYDEN. It would be cruel and unusual punishment to keep you gentlemen here any longer. I thank you all very much.

We will hold the record open for any further comments you gentlemen wish to make. Special thanks for the courage, and if a commendation is to be given, you will be at the front of the line.

Thank you all very much. The hearing is adjourned.

[Whereupon, at 7:20 p.m., the task force adjourned, to reconvene subject to call of the Chair.]

IMPACT OF CHANGES IN THE TELECOMMUNICATIONS INDUSTRY ON SMALL BUSINESS
(Part 3)

FRIDAY, OCTOBER 19, 1984

House of Representatives,
Special Task Force on the Impact of Telephone Costs,
Committee on Small Business,
Nashville, TN.

The task force met, pursuant to notice, at 10:10 a.m., in the Estes Kefauver Federal Building, Nashville, TN, Hon. Ron Wyden (chairman of the task force) presiding.

OPENING STATEMENT OF CHAIRMAN WYDEN

Mr. Wyden. The task force will come to order, and let me say, as the chairman that I am very happy that the task force could be here at the request of Congressman Cooper to hold a hearing to examine the issue of small business and telephone rates.

We have already had hearings in Seattle and Kansas City. We have had several hearings in Washington, DC. The evidence indicates very clearly that telephone rates and going up very dramatically for small business. The question that our task force has chosen to focus on is: have these rate increases been fair, and if not, is there a fairer way to price telephone service for small business?

I think it goes without saying this is not some kind of abstract philosophical issue. Small businesses provide about 50 percent of the jobs in this country. Clearly, if we are to generate the kind of economic growth that all Americans want, we have to be sure that small businesses have access to affordable communications.

This county has a longstanding goal of universal telephone service—up to 98 percent market penetration in other areas of the United States as a goal, however, we have had universal service events in recent days indicate that that may be beginning to change.

I went to a dedication in my district not too long ago, I think most of you are familiar with what happens when a Congressman heads for a dedication, it is almost always a happy occasion, a dam or bridge or highway, and you always have some fellow banging a bottle against a building.

Some months ago in my district, we dedicated a community phone for citizens in my community who could no longer afford one. It was to leave messages about employment and doctors and necessities and things of that nature.

I think all citizens in Tennessee and around the country have got to be concerned with this kind of indication that maybe our universal service ethic is beginning to change. We don't want to see that happen.

We are here to take testimony to look at ways to insure that it doesn't. I think at this time, I want to turn it over to Congressman Cooper, who has been an invaluable member of the task force, a consistent advocate for small business generally, and particularly in this area of taking steps to get more affordable phone service.

OPENING STATEMENT OF HON. JIM COOPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. **Jim Cooper**. Thank you, Ron.

I would like to introduce you to the Tennessee audience here. Ron isn't quite as lucky as we are, he is from way out west in Oregon, where most of the people who weren't fortunate enough to settle here settled. It is the rain belt. People don't age, they rust.

It is one area that discourages visitors and folks moving in.

Mr. **Wyden**. Not any longer.

Mr. **Jim Cooper**. Ron spearheaded this effort. He requested from Chairman Mitchell of the Small Business Committee that a task force be formed, and has shown great leadership in exploring this important issue, an issue which is particularly important for Tennessee, because due to the highly rural nature of most of the State, we have conditions here that more urban States do not have.

I was shocked to learn that according to the 1980 census in my district, we have about 150,000 homes with telephones, but a good 25,000 homes without telephones.

I would like to go ahead and read some of the information for the rest of the State, because I think it is truly shocking, the extent to which, even today, the concept of universal phone service is not really fully implemented in Tennessee.

For the State as a whole, according to the census, the good news is we have 1.4 million homes with phones. The bad news is we have 160,000 homes without phones.

Let's take it by congressional district. The only congressional district in the entire State which comes close to mine in terms of number of homes without phones is the First Congressional District, way up in east Tennessee, and there, 24,000 homes are without phone service.

It is a little better in the Second District, 15,000 homes without phones. The Third District also has about 15,000 homes without phones, and you get to my district, the one with the highest number of homes without phones, you are back up to 25,000.

Look at the Fifth Congressional District, here in what I feel is probably the most prosperous, rapidly growing area of Tennessee, 11,481 homes do not have phone service. The Sixth Congressional District, 19,000 homes without phones.

Seventh District, 15,000 homes without phones. The Eighth District, 17,000 homes without phones, and in the Ninth District in Memphis, 14,000 homes without phones.

To me, that very dramatically illustrates the problem that we now face. These are, however, residential statistics that I have been giving you.

Our committee is enjoined with the task of looking at the impact on small businesses and for small businesses in Tennessee, of the monthly access charge of $5, which equals $60 per line per year.

In Tennessee, the impact on small business has already been severe. The real interest for the public, I feel in this, is it is the first test we have had of access charges being implemented on any sort of systematic basis nationwide.

In other words, it is kind of the thin edge of the wedge for what will be happening to residential customers when that day comes in June 1985 when the FCC, according to its plan, intends to implement the residential access charge, or the charge for single line users.

Public interest and concern over the telephone situation has diminished greatly in the last several months. It was one of the hottest consumer issues around. But I feel the time bomb is still ticking, and with every tick of the clock, we are getting to the day in June 1985 when I feel there will be an explosion of consumer sentiment.

I feel it will be the number one consumer issue in 1985. It nearly was in 1984, except the FCC delayed it for the year.

It will be tough to face, and I hope the people of this Nation are aware of the implications of what we are studying now for small business, because small business, no matter how small, has more ability to pass along its increase in costs to the customer.

The community that Ron talked about had to resort to a community telephone in his area. Some of us can't remember the days of party lines, but it is interesting to me in this day of technological advancement that we are seeing technological regress in rural areas if people are, in fact, going to be forced into things like community phones, which is in a sense going back to the old party line mechanism.

So, these are important issues. I feel privileged to be a small part of this committee under Chairman Wyden's leadership, and I look forward to hearing the testimony of the witnesses today.

[Congressman Cooper's prepared statement follows:]

PREPARED STATEMENT OF HON. JIM COOPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. Chairman, I am very pleased to welcome the House Small Business Committee's Telephone Task Force to Nashville and to my home state of Tennessee.

We know that the break-up of AT&T has brought about major changes in the way we pay for telephone service. In this hearing we will be investigating exactly how divestiture and recent decisions by the Federal Communications Commission have affected small businesses.

Small businesses are the economic backbone of our nation's economy. In fact, small business accounts for nearly half of our nation's GNP, employs half of our nation's workforce, and accounts for most major industrial innovation. The vast majority of new jobs in this country are created by small businesses.

My concern, and I believe that other Task Force Members share this concern as well, is that the impact of the recent changes in the telecommunications industry adversely affect small business. If one walks around the courthouse square in my hometown of Shelbyville, one will find family-owned businesses that have operated for decades, usually run by a handful of people.

They're not the Sears', the K-Marts', or the small businesses that may employ up to 1,500 people and still be classified as a small business. I'm talking about the barbershops, hardware stores, and small factories which employ few people, but who are a vital part of our society. These are the folks that I'm particularly worried about.

I'm worried that due to skyrocketing phone bills, they may have to reduce their number of phone lines. A few small businesses may have to give up phone service all together. The new charges for phone service may seem small now, but I'm afraid that this is just the "thin edge of the wedge." Small businesses can at least pass their added costs on to the consumer. Residential users have only one choice: a higher phone bill. I think we should all be concerned over this.

I'm concerned that the Federal Communications Commission did not adequately study the impact the new price structure is having on universal telephone service. As a result, this may be the beginning of the end of affordable telephone service for rural Americans.

There are other events reshaping the telephone industry that the Task Force will discuss. In addition to the FCC access charge decision, there are other issues that affect small business. Problems facing rural telephone cooperatives, the much talked about by-pass issue, toll rate deaveraging, and local measured service are among the issues that this Task Force will consider.

Again, I commend Chairman Wyden and the other members of the Task Force for their efforts to keep telephone service affordable for our small businesses. I look forward to working with the Chairman in the future on this and other important issues facing our nation's small businesses.

Mr. WYDEN. Thank you for your excellent statement.

Congressman Gore wanted very much to be here. He has been a tremendous advocate for consumers and phone users generally around the country, and he was unable, at the last minute, to work it out, but I want the record to show that Congressman Gore wanted to be here.

Mr. JIM COOPER. It was the Gore amendment which exempted single-line phone users from the access charge. In other words, the Gore amendment saved every residential customer in the United States and every small business with one line from the charge being implemented.

That bill was passed while the FCC was going ahead to hit us with the charge in 1984. Largely due to Congressman Gore's efforts, the FCC delayed its implementation, but I feel that it is largely due to Congressman Gore that the residential customers in this country have enjoyed the year respite that they have had from the implementation of the charge.

Mr. WYDEN. Let us begin with our first witness, Mr. John Sloan of the National Federation of Independent Business.

Mr. Sloan, we are very pleased to have you.

Let me begin by saying that I think the National Federation of Independent Business has just done a tremendous job in spotlighting some of the inequities in present telephone pricing patterns for small businesses.

You all have really been like a clarion call in the night, and I appreciate your leadership and the solid, well-researched evidence that you put together about some of the problems for small business. We are delighted that you are here.

Why don't we just announce at this time that we will make a full copy of your prepared remarks a part of the record, because we have got a lot of witnesses, and want to have plenty of time for questions as well. Why don't you just summarize, if you would, your key points.

TESTIMONY OF JOHN E. SLOAN, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, ACCOMPANIED BY LESLIE CHRISTENSEN, ISSUE COORDINATOR, NFIB

Mr. SLOAN. Thank you.

Let me also thank you, Congressman Wyden, for the leading role you played in looking into what we consider to be the very inequitable way that the small business community has been treated in this access charge issue.

We particularly appreciate the leadership you took back in the early spring in getting 200 of your colleagues to write the FCC and ask them to actually defer the access charge on most of small business the same way that they were doing on others.

We appreciate very much your leadership in this area. Being a Tennessean, I am appreciative, Congressman Cooper, of the role you have played.

I have with me this morning Ms. Leslie Christensen, who is the issue coordinator for the NFIB in the area of commerce, specializing in the telecommunications area. She will probably answer some detailed questions a little bit better than I could.

Let me summarize the major points that we, at NFIB, are so concerned about: the rate restructuring proposals, the decisions that have been rendered since divestiture were supposedly based on cost-based pricing, and certainly, in a profit motive, that sounds very reasonable, but it hinges itself on one major assumption, that you know your costs.

This is an area that we have great concern, in that it appears that this is an area that the Department of Justice never really had a chance to deal with during the lawsuit; because of the settling of the issues out of court, this one was never really resolved.

NFIB, of course, became very interested in this and, as you know, we realized suddenly that the issue of access charges and how they were going to be implemented seemed to be coming about in a pretty inequitable manner.

We were appreciative of getting the one-line exemption for a small portion of our members, but, as I responded to a Washington Post writer earlier this year, to define small business as a one-line user is missing the mark.

I respond to that as being minute business. Even my little barber shop has two lines, and I wouldn't define that as other than a small business.

We filed, in June, a petition with the FCC requesting them to reconsider their method of action on this access charge issue, and specifically requested that the multiline businesses having six or fewer lines be exempted until that June 1985 date, the one that has been set, of course, for the residential and the one-line business users.

This would cover approximately 90 percent of what we would consider small business. We appreciate the efforts made by Senator Sasser of Tennessee and Senator Kasten of Wisconsin to attempt to accomplish this in the last days of the Congress, but since this was not included, we still consider that a major issue.

One of the major things we wanted to make sure was presented today is in the written testimony that we have put in the file, is a comparison of myths and facts in this area.

As we have delved deeper into this issue, particularly through the polling of our members to determine what is their telephone usage, we have found that what we are hearing from the FCC and what is really the case with our small business members are really quite different.

We are finding that, typically, they are users of three to five telephone lines, and of particular interest, they really don't use that much long-distance service, and most of what they use is intrastate, which is unaffected by this.

So that most of our members would average using less than $50 a month in long-distance charges. If the justification is reduced to long-distance rates, we must compare it to what has happened.

The FCC required a 6-percent long-distance rate reduction. When you apply that to the $50, it is nominal relative to the increase in charges by small business.

We believe that generally there is an overwhelming lack of information developed throughout the FCC decisions, and that they have jumped and made their conclusions without adequate study.

An interesting point I would like to raise here is that the FCC issued a public notice, its first real public notice requesting information to small business self-usage in July 1984. That is 2 months after they put the charge on.

Testifying before this task force in June, FCC Chairman Fowler cited the Perl study as evidence that the access plan would not significantly affect small business usage.

The Perl study was a residential study, not a business study. It is this type of approach by the FCC that gives us real concern about the way they are applying it, and why we appreciate what this committee is doing to look into it.

We talk about the threat of bypass. I think that is a legitimate question to raise. The issue of bypass is still taking place, even though we reduced the access charge on the business owners, so we think that needs looking at.

We have laid before you new information, the work we are doing as we poll the members, we appreciate the chance to get this information before you, and will be glad to answer any questions you might have.

[Mr. Sloan's prepared statement with attachments follows:]

PREPARED STATEMENT OF JOHN E. SLOAN, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

I am pleased to have this opportunity to speak on behalf of the more than one-half million small and independent businesses which constitute the National Federation of Independent Business (NFIB). We have been delighted with the efforts of the Task Force to look out for the interests of small business, and we stand ready to assist these efforts when needed. My comments today mainly summarize our original arguments but also include information that has become available only recently.

Rate-restructuring proposals and decisions rendered in the wake of divestiture often are characterized by their proponents as the products of "cost-based pricing." That term sounds like an eminently reasonable and fair goal. However, the term itself is predicated on the fundamental assumption that "costs" are known.

AT&T and the Bell Operating Companies (BOCs) claim that access charges are a necessary part of the grand movement toward cost-based pricing. Their argument relies on the assertion that long-distance rates previously were set artificially high to subsidize the true costs of local service.

The Department of Justice, however, was not buying this assertion in the days before divestiture. Though ready to agree that a rate subsidy existed, the Justice Department's investigators concluded that it ran the other way--that local rates subsidized long-distance service.

The question of which rates subsidize the others was never resolved, as the anti-trust settlement effectively cut off the arguments.

NFIB's concern in this matter is not so much with the controversy itself. I have raised the subsidy question only because it exemplifies the environment in which the Federal Communications Commission formulated its access charge plan. It is a climate of confusion and controversy--an outgrowth of a woeful lack of reliable information. In such a climate, reasonable and fair pricing policies cannot flourish.

NFIB Involvement

As members of the Task Force know, NFIB has been very involved in the issue of access charges and the effect of increasing telephone costs on small business since NFIB members indicated that this was a problem that required our attention. Representatives for NFIB have testified before the Task Force several times, and NFIB members have contacted their Congressional representatives to express their concern with regard to this issue. A survey of NFIB members conducted by our field staff provided data on small-business telephone usage before such data was available from other organizations.

In June we filed a petition with the FCC requesting reconsideration of the access charge decision. Specifically, we requested that multiline businesses having six or fewer lines be exempted from access charges until June 1, 1985, the date set by the FCC for final determination regarding access charges for residential and single-line business customers, who are currently exempt. This petition is still pending before the Commission, although rebuttals to it--and our response--have been submitted to the Commission. In August, we responded to the FCC's public request for information pertaining to small-business telephone usage.

Most recently, we have worked with Members of Congress in an attempt to legislatively enact a moratorium on access charges for multi-line small businesses. The opportunities for such action this year have expired. However, we will continue our efforts next year.

Myths and Facts

NFIB's position has only strengthened as we have delved deeper into the issue. What looked like a simple misunderstanding on the Commission's part now looks more like uninformed and insensitive decisionmaking. I would like to submit, as an attachment to my testimony, our compilation of "myths and facts" pertaining to access charges. This myth and fact sheet briefly summarizes our points of contention with the access charge decision and, more importantly, with the FCC's approach to the situation.

The springboard for our argument is that small-business telephone usage, according to our survey, differs from large business and residential usage in three significant ways, none of which seems to have been taken into account in the formulation of the access charge plan. First, most small businesses have more than one telephone line. Second, small business does not use long-distance service to any great extent. Last, of the long-distance service that is used, intrastate outweighs interstate.

Several of the BOCs responded to the FCC's public notice requesting information pertaining to small business telephone usage. Some agreed that "small business" included businesses with more than one line; the maximum number of lines varied. Some claimed that small business uses more interstate than intrastate long-distance service.

Certainly the figures offered by the BOCs must be considered. The one conclusion that can be drawn at this point is that there is no solid information with regard to small business telephone usage, and there was even less at the time the access charge plan was developed.

An overwhelming lack of information has been apparent throughout the proceedings. For instance:

* The FCC issued its public notice requesting information pertaining to small business telephone usage in July--two months after access charges had already gone into effect.

* Testifying before this Task Force in June, FCC Chairman Mark Fowler cited the Perl study as evidence that the access charge plan would not significantly affect small business telephone usage patterns. The Perl study was a study of residential customers only.

* In response to a request for a moratorium on access charges for telephone customers with four or fewer lines, filed by the Clear Lake Telephone Company, located in Clear Lake, Iowa, the FCC stated that because business users are generally the largest long-distance users, access charges would, in effect, be offset by post-divestiture reductions in long-distance rates.

AT&T itself recently presented the statistic that 86% of business telephone customers pay less than $50 per month in long distance calls.

The Commission

Whether the information regarding small business was not available or was just ignored is not clear. What is clear is that no great effort was made by the FCC to work with the small-business community. The Commission's approach has been, prior to the investigative action taken by the Task Force, to justify its plan by emphasizing the threat of bypass and the need to recoup $14.5 billion in revenues lost by the local operating companies as a result of divestiture, then to assert that there is no other way to move to cost-based pricing in telephone service. This attitude is at the root of the problem we are discussing today.

Granted, the reconstruction of the telecommunications industry pursuant to divestiture is possibly the most difficult and far-reaching effort ever undertaken by a federal agency. However, the thoroughness of some of the Commission's fact-finding endeavors has not measured up to the magnitude of the effort. I have mentioned examples that illustrate the lack of information pertaining to small business. There are other aspects of the decision that are also inadequately supported.

The bypass "threat," as it is characterized by the FCC, has never been quantified by the FCC. Plans to study bypass were announced simultaneously with the release of the final access charge decision. Should the access charge plan be implemented in an attempt to prevent bypass when neither the threat of bypass nor the effect of the access charge plan on small business has been satisfactorily assessed?

Last month a staff report was released by the Commission. This report, "Bypass of the Local Exchange: A Quantitative Assessment," concludes that "the current access charges are likely to produce much less than the current revenue requirements if those access charges are continued long enough to allow customers and interexchange carriers to take advantage of bypass opportunities." In other words, the current access charge plan is not working. Bypass is continuing to occur, and the $14.5 billion in lost revenues is not being recouped.

The access charge rate schedule, including access charges paid by the interexchange carriers, is calculated to recoup $14.5 billion. Where does this figure come from? According to the FCC, this figure represents the total alleged subsidy provided by long-distance revenues to keep local service rates down when AT&T controlled both local and long-distance service.

Should local operating companies continue to receive this amount of revenue, if in fact they ever received this amount as a subsidy in the first place? Judge Harold Greene stated in his final judgment on the divestiture, "There is a dispute, reflected at the trial as well as in other forums, over the question whether local services have ever actually been subsidized by intercity service as AT&T has consistently claimed....The government contended that, to the contrary, local telephone revenues have subsidized AT&T's intercity rates...and since the trial was aborted by the settlement, no final decision was reached on this issue." Should telephone users, and the interexchange phone companies as well, be required to pay access charges despite this uncertainty?

Costs To Small Business

In Tennessee, over 70% of the respondents to the NFIB survey on telephone usage indicated that they have more than one line, and the average number of lines was three. These small businesses are paying access charges. They average five employees and about $75,000 in annual gross revenues. At $4.89 per line, the interstate access charge in Tennessee, they pay $14.67 per month in access which translates into $176.04 annually. It is important to keep in mind that the FCC has scheduled access charges to increase steadily during the transition to "cost-based" pricing.

The average monthly phone bill for the Tennessee small businesses we surveyed is $350. The local and long-distance calling portions of the bill are approximately 45% and 35% of the total, respectively. Approximately 60% of the long-distance calling portion is for in-state calls. Based on these figures, the average interstate long-distance bill for these businesses is under $50 per month. Obviously, slight reductions in interstate rates--i.e. the 6.1% reductions mandated by the FCC--are not going to do much for small businesses. In fact, our average Tennessee small business with three lines would have to make $240 per month in interstate long-distance calls in order to offset access charges. More than one-third of our survey respondents in Tennessee have total monthly phone bills under $240.

For many small businesses, the cost of access charges alone significantly increases the total cost of telephone service for the business. The combination of access charges and other post-divestiture cost increases is enough to hit all small businesses. Installation costs have skyrocketed. New charges for information assistance are being instituted. Maintenance and repair charges have increased. Yellow pages advertising, vitally important to small business, costs up to 200% more in some areas than it did four years ago.

Local rate increases occurred regularly even before divestiture, but since divestiture, increases in flat-service rates have accelerated. In South Carolina, the per line business rate within the past year has increased 22%, and a request by Southern Bell for a $66.8 million overall rate increase is pending. Pending rate increase requests in Vermont and Wyoming would raise per line business rates by 71% and 67%, respectively. In Virginia, a 41% increase in business rates has occurred within the past year.

Is it fair to require small business to pay increased costs across the board while residential customers enjoy an exemption from access charges and big business customers enjoy savings from lower long-distance rates?

Let me summarize my main points:

--The access charge decision was made and implemented in spite of a lack of information on which to base the decision.

--Much of what information has been available is misinformation.

--The FCC made little if any effort to take into account small-business concerns in the formulation of the access charge plan.

Thank you again for the opportunity to participate in your hearings. I would be pleased to respond to any questions you may have.

0162T

TELEPHONE ACCESS CHARGES: MYTHS AND FACTS

Myth: The telephone industry has been deregulated.
Fact: Long-distance service has been deregulated, but local service has been "re-regulated." It is the re-regulated costs of local service that impact upon small business.

Myth: The cost of access charges, which are currently being imposed on multi-line businesses, is offset by recent reductions in long-distance rates.
Fact: New AT&T statistics show that 86% of businesses spend less than $50 per month on long-distance service--the break even point in relation to access charges is $80. Small businesses do not use long-distance enough to have the cost of access charges offset by reduced long-distance rates. Nearly two-thirds of the respondents to an NFIB survey pay less than half of their phone bills in long-distance charges, and furthermore, over half of their long-distance calling is intrastate, i.e., not affected by reduced interstate rates.

Myth: The FCC gave special consideration to small business by exempting single-line business as well as residential customers from access charges.
Fact: Most small businesses have two or more lines. The NFIB survey indicates that over 60% of small businesses have two or more lines.

Myth: The decision to impose access charges on all multi-line businesses was based on extensive study.
Fact: The Commission issued a public notice requesting information pertaining to small business telephone usage two months after access charges had already gone into effect. Little if any attempt to determine the impact that the access charge plan would have on small business was made previously. At a House Small Business Telephone Task Force hearing, FCC Chairman Mark Fowler cited the Perl study, a study of residential telephone customers, as evidence that the access charge plan would not significantly affect small business telephone usage patterns.

The Chief Council for Advocacy at the Small Business Administration, Frank Swain, testified just this week that "...a flaw of many of the important restructuring related decisions...is the absence of substantiating data."

Myth: Access charges do not significantly increase telephone bills.
Fact: For some small businesses, access charges are indeed a significant additional cost. For all small businesses, access charges are not the only source of increased telephone costs pursuant to divestiture. In South Carolina, the per line rate for flat-rate business service has increased 22% and a request by Southern Bell for a $66.8 million overall rate increase is pending. Pending rate increase requests in Vermont and Wyoming would raise flat-rate business service rates per line by 71% and 67%, respectively. In Virginia, a 41% increase has occurred.

Installation fees, directory assistance charges, maintenance fees, and per line rates for "yellow pages" advertisements have increased as well, and another new cost in the form of intrastate access charges is expected to be implemented in some states in the near future.

Myth: Revenues from access charges are needed to make up the post-divestiture loss in revenue to the local telephone operating companies.
Fact: Rates of return on equity are generally 14-15%, as approved by the state regulatory commissions. Shares in the local operating companies are currently considered to be one of the better safe investments on the market--safer than originally anticipated, and as good if not better than shares in the same companies when they belonged to AT&T.

Myth: Access charges will prevent bypass and thus preserve universal service.
Fact: A recently released FCC staff report admits that access charges are neither effective nor efficient means of preventing bypass. According to the report, "The current access charges are likely to produce much less than the current revenue requirements if those access charges are continued long enough to allow customers and interexchange carriers to take advantage of bypass opportunities.... Using pessimistic but plausible assumptions, there is no level of access charges which meets the $14.5 billion ... revenue requirement."

Myth: Single-line businesses (and residential customers) will not pay access charges until at least June 1, 1985.
Fact: Chairman Fowler has stated privately that access charges may be imposed on single-line business and residential customers after the November election.

1278D

Telephone Rate Increases in the Past Year

Business Local Service Rates (City)
Flat Rate

	Old	New	% Increase
Ohio	$22.85	$26.35	15%
South Carolina	40.95	50.05	22
Vermont	11.80	20.25*	71
Virginia	36.37	51.43	41
Wyoming	21.83	36.67*	67

*pending

Rate of Return on Equity

	Former	Requested	Granted (by state regulatory agency)
Ohio	15.60%	18.00%	14.08%
South Carolina	13	?	15
Vermont	14.25	16.50-18.00	*
Virginia	15	15	15
Wyoming	13.80	16.50	*

*pending

Source: National Telecommunications and Information Administration

Mr. WYDEN. Thank you, Mr. Sloan.

The theory behind all of this, in terms of the FCC's policies, is that long distance rates will go down significantly, and that even if local rates go up a little bit, the consumer will still come out ahead.

That was the theory. Are you finding that is the case?

Mr. SLOAN. Speaking specifically for that block, the small business community, that is absolutely not the case. We are really carrying the burden.

As the consumer has had the access charge deferred, but other charges up, technically they have no access charge at this point. The access charge, as Chairman Fowler said to me, is raising approximately $1 billion. That $1 billion is not coming from the consumer, it is coming from all across business. But specifically, looking at usage, small business is paying a big share and getting very little of the reduction in long-distance telephone rates.

Mr. WYDEN. I asked it in terms of the business consumer, and I think you clearly pointed out what we are finding around the country, that small businesses are net losers. Even if they do experience a modest reduction in the long distance bills, the increases in the local rates more than eats that up, and they come out net losers.

Mr. SLOAN. Let me suggest the type of example. A small local doctor's office in any type of town in Tennessee or other States, that three or four doctors have five lines, they are paying $6 per month per line in over half the States.

When you look at that, and put against it a very nominal interstate long distance bill averaging $50, saving $3, $3 against a new charge of $30 means, over the period of a year, we have had a dramatic change in cost shift.

Mr. WYDEN. A couple of other points.

I think you stated the FCC's role in this area very well. What the FCC did is make a decision first, and then decide they were going to go out and try to find the facts later. That was the way they approached the access charge matter. My question is, Did the FCC contact any small business groups at all before they put in place the access charge decision.

Did they ever try to work with you at any time before this went into effect to look at pricing patterns and the like to small businesses?

Mr. SLOAN. They did not. We represent people who are in business to make a profit. We, therefore, understand the problem of the telephone company. We don't argue that they should be allowed a fair rate of return.

Our argument is with the FCC and the method in which they have allowed the shift. Mr. Fowler, when he realized there was small business concern, made comments and proposals, but never really asked for evidence.

Mr. WYDEN. One last question, and I only ask it because you might not be here when the folks from BellSouth testify later, but I was just skimming over their testimony this morning over breakfast.

In the prepared testimony, they said the implementation of the $6 per line charge on multiline business customers had a practically negligible effect on business customers with from 2 to 10 access lines.

Would you like to comment on that statement?

Mr. SLOAN. It is negligible by the type of dollars the telephone company deals with, but not negligible from the point of view of a small business, for the same access to interstate long distance that they have had for years are paying a fresh charge, that is $360 charges of new charges for nothing new.

What are they getting for it? Supposedly, they were to get a reduction in long-distance costs from AT&T. There was a 6-percent reduction there.

We have findings that those small businesses are not the major users. I think their fees would show that 85 to 90 percent of all interstate long-distance charges and calls are made by the large companies, and they are the ones who are, of course, involved in the bypass system.

Mr. WYDEN. The only other question that I have, correct me if I am wrong, is that there are a significant number of small businesses in this country that are going to pay more in access charges than they are going to pay in the actual long-distance costs that they incur.

Have you picked up on that?

Mr. SLOAN. Absolutely. The company that has five lines will pay $360 in charges, $30 a month. If our average is $50 of long distance, a lot of those are going to have under the $30 a month of total long distance that they are paying in access charge.

Mr. WYDEN. So they are going to pay more for the privilege of having the opportunity to make a long-distance call than they are going to pay for the actual calls that they make?

Mr. SLOAN. Right.

Mr. WYDEN. Thank you.

Mr. Cooper?

Mr. JIM COOPER. Thank you.

As John referred to earlier, we are very proud to claim him as a native Tennessean and Nashvillean and proud to have him in the key leadership role.

I know in my district, and I imagine it is true for the rest of the Nation, I know of no more trusted and respected group which represents small business interests in America.

There are some others, and some of them are very well-known, I don't know whether I should mention names or not, but more often than not, they don't truly represent the small businessman.

In my district, we have few, if any, businesses that would qualify in the big business category. Almost every business in Tennessee is a small business. That is why we are so proud to have a Tennessean in that tremendous leadership role.

I would like to emphasize three points. No. 1 would be the lack of credibility of the FCC. The FCC is a branch of the executive branch of Government.

They have been in office for a long time, and doing business, but it is amazing to me that they engage in cost-shifting enterprises involving billions of dollars without consulting a group like NFIB, without taking a serious study, and then claiming that their actions were justified by these transparent arguments, such as studies on residential customers, when they are using those studies to prove small business points.

It is amazing to me to see that high-handed, arrogant attitude on the part of the FCC. We, in a sense, are trying to get those folks to do their homework now. They should have done it years ago.

Chairman Fowler testified to us that they made no effort at all to arrive at a reason for picking a certain access charge for residential customers. They kind of picked it out of a hat, and to me, when you are talking about such a major impact on phone service, you have to have a good justification for every penny that is involved.

Mr. Sloan, you referred to such phrases as the overwhelming lack of information on the part of the FCC. I think the American people deserve better than that from the executive branch of Government. It also intrigued me, the specific information Mr. Sloan had for Tennessee. I would like to really emphasize this point.

One page of his testimony said, our average Tennessee small business with three lines would have to make $240 per month in interstate long-distance calls in order to offset the access charge.

To me, that means unless a small businessman makes over $240 a month in interstate long-distance calls, he should be flat out opposed to this access charge scheme, because it is costing him money.

Why? Basically to help shift costs to another sector of the economy, and the primary beneficiaries are not small businesses or individuals, but the large interstate long-distance users, and more often than not, in my opinion, that is big business.

I would, if I could, like to ask a couple of specific questions. You brought up the important point of Yellow Page advertising for small businesses. That is a very important part of small business advertising.

As I point out, it costs up to 200 percent more in some areas than it did 4 years ago. Do you think the conjunction of advertising charges, plus these access charges is having an adverse impact on small businesses across the country?

Mr. SLOAN. That is one aspect of increase in cost of telephone service, the increase in Yellow Page costs or the whole combination. It is interesting to note that in States like Hawaii, we have seen a 15-percent increase in local flat service rates since this has gone into effect.

It has nothing to do with the extra access charge. In the State of Virginia, it is 41 percent. We have seen a tremendous increase in phone service costs to our businessmen.

Mr. JIM COOPER. One of the key injustices to me seems that the access charge would be levied even on a small business that never made one interstate long distance call, is that correct?

Mr. SLOAN. That is correct.

Mr. JIM COOPER. I believe in this or other testimony presented to us, I think it is 75 percent of your members never use long distance enough to even feel the need to call on a service like MCI or Sprint or some other way of lowering the costs, is that a correct figure?

Mr. SLOAN. That is my understanding. That is another interesting thing. Supposedly, that was to make AT&T more competitive. As soon as they reduced their charges 6 percent, so did MCI and Sprint.

So, the bypass threat, which is real, is still there. All we have had is the cost shift.

Mr. JIM COOPER. For a rural area, MCI and Sprint are not available, and will not be available, so that reason or justification that people sometimes offer for all the benefits that reduce the price of long-distance service is a dream for the country. It might be a reality in Nashville, but in most areas of my district, they have no hope for that for a long period of time.

Also, the concept of local measured service is a dream and likely to be so for a long time. I received information from a telephone company that in two of my towns, it might be scheduled for 1985 or 1986. That is better than nothing, but it basically means that rural areas don't have it at all.

I have been interested, however, in the conflict about whether local measured service really would help the situation or not, whether it would really help reduce the demand at peak times.

That, as I understand it, is one of the key problems that we face with the telephone equipment. You have to be able to handle the maximum capacity, and unless local measured service helps reduce the peak load demand, then you are really not helping the situation that much.

As far as you know, has the NFIB taken a position on whether local measured service would end up helping in economic terms?

Mr. SLOAN. We have not actively worked on that, but it is interesting that in our January mandate, we asked the question, do you favor measured local telephone service? They did respond 62 percent to 28 percent that they did not want measured service.

Mr. JIM COOPER. I am surprised that that many are against it, because while it is a controversial issue, it is at least one of the ideas that offers some slim hope of improving the situation, at least for the residential customer.

I can understand why small businessmen might be against it.

Mr. SLOAN. I am now quoting from our 1984 Indiana State ballot on which we asked, "Do you favor or oppose local telephone service being priced the same as long distance?"

Eighty percent opposed, 13 favored; 25 percent said it would be a moderate increase, only 12 percent felt that it would be a decrease.

Mr. WYDEN. Would the gentleman yield?

One of the things we will have to do on the measured service issue is make a clear distinction between a mandatory measured service proposal, where it would be required, which is what is generally being discussed around the country; and the alternative, where you have a choice.

Clearly, there are going to be some distinctions in terms of the overall revenue impact, and I appreciate the gentleman yielding, and I know we are going to talk some more about measured service later.

Mr. JIM COOPER. The issue of bypass should come up. In your experience with NFIB members, are many of your members tempted to bypass right now? How serious a threat is that to universal phone service?

Mr. SLOAN. That is two questions. I think there is some major threat of bypass from the big guys, but our people just don't have the volume that would justify or very many of them. Over half of our 560,000 members really represent 10 or fewer employees.

That is really not an alternative to them.

Mr. JIM COOPER. I thank you for your outstanding testimony.

Mr. WYDEN. Let me, if I might, just ask one other question, Mr. Sloan, on the issue of bypass.

One of the things that I think may develop, and I agree with you completely, is that bypass is out there, it is going on. We in Congress certainly want to pass no laws to bar bypass, because we don't want to cheat on technology.

We want to ensure that we continually have the tremendous engines of our marketplace economy innovating and coming up with new kinds of approaches, but there is also a danger of what could be local bypass.

For example, if local phone rates go up and up as a result of access charges, what you can have is danger of local bypass as well. Are you starting to hear your people talk any about this, or is this all kind of too speculative and too complicated?

Mr. SLOAN. That is an interesting question. Yes, we are to such a degree that we are even getting queries through our member service department of would we look at offering that opportunity to them in mass numbers?

Take a State like Tennessee, with just short of 7,000 members, the question comes, can you help us as a pool of members to do something? We are beginning to get queries, but nothing has been done.

Mr. WYDEN. You have been excellent in presenting your views, and we look forward to working with you in the days ahead.

Mr. WYDEN. Our next panel will be Commissioner Keith Bissell and Commissioner Jane Eskind, Tennessee Public Service Commission.

We thank both of you for being here and taking time from what I know are busy schedules. We will make a formal copy of your statement a part of the record and if you will summarize your remarks, we will have time for some questions.

Commissioner.

TESTIMONY OF KEITH BISSELL, CHAIRMAN, TENNESSEE PUBLIC SERVICE COMMISSION

Mr. BISSELL. Thank you, Mr. Wyden, and Mr. Cooper. I do have a prepared statement that I have put in as brief a form as I could this morning and my staff is reproducing that now and we will have a copy for you shortly.

It is a pleasure to be here today. I am here as chairman of the Public Service Commission of Tennessee. I am not here as an economist or an expert in utility rate structures but as a statewide elected official who believes that utility regulation is not just a question of economic issues but raises political and consumer issues as well.

As a public service commissioner, I spent a great deal of time in the past 5 years listening to economists, cost-of-capital witnesses, accountants and rate experts discuss economic theories, formulas and conclusions.

My message to you is simple. We have been told that the deregulation of the telephone industry would reduce long distance bills by 15 percent in 1984. It has not.

We have been told that end user access charges would reduce telephone costs for businesses and bring new industries to depressed rural areas. It hasn't, and it won't.

Finally, we have been told that these changes in the telephone system such as access charges and the de-averaging of toll rates along high density routes are the inevitable result of economic and technological forces beyond anyone's control.

That is simply not true. The shape of things to come is being determined right now, not by technological or economic issues or questions, but by politics, by political appointees at the FCC, by the man in the White House who picked them, and by the large corporations and communications firms to whom they all seem to listen.

Let's not deceive ourselves. The decisions about who is going to benefit and who is going to suffer from the upheavals in the telephone industry are political decisions and we are the ones who should make these political decisions.

One example: The FCC has come under attack from a number of widely divergent groups: State commissions, Members of Congress, and consumer groups have all criticized the FCC for several decisions which collectively will cause a massive increase in telephone rates during the next few years.

Perhaps the most controversial of these FCC opinions has been the access charge decision in which the commission decided to impose flat rate access charges on all telephone customers to pay for a portion of the nontraffic sensitive costs of the local telephone network and eventually under the FCC approach, these access charges would pay for all the nontraffic sensitive costs of the local network and thereby giving the long-distance users or providers a free ride over the local system.

As more people around the country realize the impact of what the FCC has done, there is growing sentiment in Congress to reverse the FCC and to require long distance carriers to pay a fair share of the costs of maintaining a local system as evidenced by this hearing that you are having today seeking input in Tennessee.

Because of the public pressure, the FCC announced last fall that it was phasing in customer access charges over a longer period of time than previously announced and that no fee would be charged to residential and single line business customers until 1985, well after the November elections.

These changes were only cosmetic ones, however, designed to head off congressional action. There has been no change in the FCC's fundamental plan which is to increase the cost of local telephone service in the hope that long distance rates will drop.

Those who will benefit most from this approach are, of course, heavy toll users such as big businesses. The human costs of raising local telephone rates, the number of people who will drop off the system because they won't be able to afford a telephone doesn't seem to have been given much consideration by the Reagan administration.

When we proposed legislation last year to reverse the FCC's decision on access charges, many of these same Republican appointees and the telephone companies they were trying to help said that the Congress should stay out of it, that we are trying to play politics, that these matters should be left up to Judge Green and the FCC.

I strongly disagree with those objections. It should be up to the Congress, not the courts or the FCC, to determine national telephone communications policy—and make no mistake about it, these are political issues.

When the FCC decides that the way to help poor people is to cut long distance rates for large businesses, that is a political decision. When the FCC made some changes in its access charge plan because of growing public criticism last spring, that was a political decision. Several months ago we heard the author of the access charge, Mr. Robert Preece, who was the FCC's principal expert, try to justify the agency's decision.

What was his explanation? Access charges would reduce long distance costs so big business would move to rural areas and create new jobs in those areas.

It boils down to politics and trickle down economics that is no different now than it has been for the past 50 years. Now that we know what the FCC's position is, we can explain to the people of the State why their telephone bills are going to go up.

It is not just technology, it is not just the antitrust laws, it is not just the advent of competition, but it is also politics, the politics of helping large businesses at the expense of telephone ratepayers.

We are going to fight those changes, I am going to fight those changes in the political arena. Last year several bills were introduced in the U.S. Congress in response to the threat of drastic telephone rate increases.

We developed a legislative proposal which was incorporated in bills introduced in the House and the Senate by members of the Tennessee delegation. Our program included a ban of all customer access charges and a requirement that access charges be paid entirely by the interexchange carriers.

It would have reversed the FCC decision with regard to the preemption of State jurisdiction in the setting of depreciation rates. To address the question of bypass, the bill would require that all telephone communications services provided by interexchange carriers certified by the FCC originate and terminate over the facilities of a local exchange telephone company or, in the absence of this, require that the bypassers contribute to the fixed costs of maintaining local exchange service.

Finally, in States such as Tennessee in which intrastate telephone competition is strictly regulated by statute, the State should be able to authorize a Bell operating company to provide all intrastate interexchange telephone communication services.

As chairman of the public service commission, I remain committed to the principles outlined in that legislation. In light of the current situation in which small business customers with more than one telephone line are paying a monthly access charge, I believe Congress should, at the earliest possible time, pass legislation which will modify the FCC's decision and increase the number of business lines which are exempt from customer access charges.

I think we ought to prohibit access charges on single line business customers and most certainly prohibit the imposition of access charges on residential telephone customers.

Thank you.

[Mr. Bissell's prepared statement follows:]

PREPARED STATEMENT OF KEITH BISSELL, CHAIRMAN, TENNESSEE PUBLIC SERVICE COMMISSION

Good Morning, Members of the Committee. It's a pleasure to be here with you today. I am here today not as an economist or an expert in utility rate structures, but as a State Commissioner and a statewide elected official who believes that utility regulation is not just a question of economic issues but raises political and consumer issues as well.

As a Public Service Commissioner, I have spent a great deal of time in the past five years listening to economists, cost of capital witnesses, accountants and rate experts discuss economic theories, formulas and conclusions. My message to you is simple. We have been told that the deregulation of the telephone industry would reduce long distance bills by 15% in 1984. It has not. We have been told that end-users access charges would reduce telephone costs for businesses and bring new industries to depressed rural areas. It hasn't and it won't. Finally, we have been told that these changes in the telephone system such as access charges and the deaveraging of toll rates along high density routes are the inevitable results of economic and technological forces beyond anyone's control. That's simply not true. The shape of things to come is being determined right now, not by technology or by econimics, but by politics, by political appointees at the Federal Communications Commission, by the man in the White House who picked them, and by the large corporations and communications firms to whom they all seem to listen.

Let's not deceive ourselves. The decisions about who is going to benefit and who is going to suffer from the upheavals in the telephone industry are political decisions and we, the state utility commissions, and you, the members of Congress, are the ones who should make them.

Let's look at one example.

The Federal Communications Commission has come under attack from a number of widely divergent groups. State commissions, members of Congress, and consumer groups, have all criticized the FCC for several decisions which, collectively, will cause a massive increase in telephone rates during the next few years.

Perhaps the most controversial of these FCC opinions has been the access charge decision in which the Commission decided to impose flat rate access charges on all telephone customers to pay for a portion of the non-traffic sensitive costs of the local telephone network.

As more people around the country realize the impact of what the Federal Commission has done, there is growing sentiment in Congress to reverse the FCC and to require long distance carriers to pay a fair share of the costs of maintaining the local telephone system.

Because of this public pressure, the FCC announced last fall that is was phasing in customer access charges over a longer period of time than previously announced and that no fee would be charged to residential and single-line business customers until 1985, well after the November Presidential election. These changes were only cosmetic ones, however, designed to head-off congressional action. There has been no change in the FCC's fundamental plan which is to increase the cost of local telephone service in the hope that long distance rates will drop. Those who will benefit most from this approach are, of course, heavy toll users such as large businesses. The human cost of raising local rates -- the number of people who will drop off the system because they won't be able to afford a telephone -- doesn't seem to have been considered by the Reagan Administration.

When we proposed legislation to reverse the FCC's decision on access charges, many of these same Republican appointees and the telephone companies they were trying to help said that Congress should stay out of it, that we were trying to play politics, that these matters should be left up to Judge Greene and the FCC.

I strongly disagree with those objections. It should be up to Congress, not the courts or the FCC, to determine national communications policy. And make no mistake about it, these are political issues. When the FCC decides that the way to help poor people is to cut long distance rates for large businesses, that's a political decision. When the Federal Communications Commission made some changes in its access charge plan because of growing public criticism, that was a political decision.

Several months ago we heard the author of the access charge decision, Mr. Robert Preece, the FCC's principal expert, try to justify the agency's decision. What was his explanation? Access charges would reduce long distance costs so big business would move to rural areas and create new jobs. It boils down to politics and trickle-down economics that is no different now than it has been for the last fifty years.

Now that we know what the FCC's position is, we can explain to the people of this State why their telephone bills are going to go up. It's not just new technology; it's not just the anti-trust laws; it's not just the advent of competition. To some extent, all of these factors are to blame, but it's also politics, the politics of helping large business at the expense of telepone ratepayers. We're going to fight those changes, and we're going to fight them in the political arena.

Last year several bills were introduced in the United States Congress in response to the threat of drastic telephone rate increases. Our Commission developed a legislative proposal which was incorporated in bills introduced in the House and Senate by members of the Tennessee Delegation.

Our program included a ban on all customer access charges and a requirement that access charges be paid entirely by the inter-exchange carriers. It would have reversed the FCC's decision with regard to the preemption of the State's jurisdiction in the setting of depreciation rates. To address the question of bypass, the bill would have required that all telecommunications services provided by inter-exchange carriers certified by the FCC, originate and terminate over the facilities of a local exchange telephone company, or in the absence of this, require that by-passers contribute to the fixed costs of maintaining local exchange service. Finally, in states such as Tennessee in which intrastate telephone competition is strictly regulated by statute, the State should be able to authorize a Bell Operating Company to provide all intrastate, inter-exchange telecommunications services.

As Chairman of the Public Service Commission, I remain committed to principles outlined in that legislation.

In light of the current situation in which small business customers with more than one telephone line are paying a monthly access charge, I believe Congress should at the earliest possible time pass legislation which will modify the FCC's decisions and increase the number of business lines which are exempt from customer access charges; prohibit access charges on single-line business customers, and most certainly prohibit the imposition of access charges on residential telephone customers.

Mr. **Wyden**. Thank you, Commissioner. I know we will have plenty of questions after we hear from Commissioner Eskind.

TESTIMONY OF JANE ESKIND, COMMISSIONER, TENNESSEE PUBLIC SERVICE COMMISSION

Ms. **Eskind**. Thank you.

One of the interesting things about being a member of the public service commission is that we don't always agree on the approach we ought to take on issues such as this. It makes the days of regulation far more interesting and challenging to see how at least two out of the three of us are going to come down on any given issue.

My approach is slightly different than my colleague's and let me briefly share it with you. I first would be remiss if I didn't thank you, Mr. Wyden, and Congressman Cooper, for your concern about the continued affordability of telephone service across Tennessee and I, as I know all the people assembled in this room and the people who are going to pick this up on the nightly news, appreciate your concern and your making the effort to come to Nashville to hear not only from regulators and small business people, but from ratepayers as well.

We are talking about 44,000 small businesses in Tennessee and 5 million citizens whom Keith and I are elected to represent. We are concerned and committed to preserving our tradition of excellent telephone service at affordable prices.

Maintaining universal service for present and future generations is vital to our social and economic well-being as a State in which people come and stay and don't move away. We like to have service available.

We are not talking about long-distance families, we are talking about families that are at home. And I am sure you agree that historians of the future and economists in years to come are going to question the judgment if not the sanity of the individuals in the Department of Justice under President Reagan who brought about the dismantling of the best telephone service in the world.

There was a healthy sanction and a responsibility into having one company be responsible for providing service rather than many companies providing local networks, long-distance networks, different equipment and different types of service.

Accountability worked in the customer's behalf and we have a maxim in Tennessee, and I am sure elsewhere, that says if it ain't broke, don't fix it, and it was never more true and will never be more aptly applied than to the divestiture of the telephone company.

The price shock we are beginning to experience results not only from divestiture, but from decisions made by the Federal Communications Commission. These changes have brought about an increase of nearly $4 per line in Tennessee.

Most of the debate that we hear today is on the subject of access charges, which is a plan devised by the FCC to shift the recovery of nontraffic sensitive investment in the telephone network.

In theory, as we have all heard Mr. Sloan say, and Commissioner Bissell say, in theory this would bring a reduction in long-distance rates which is small comfort to someone who doesn't make many long distance calls. In truth, the cost of long distance has been artificially high and overpriced relative to its costs in order to subsidize local service and that was fine at a time when there were no alternatives to the telephone system, but there are alternatives to long distance and we call those alternatives bypass, and we have only to look at the buildings going up in Nashville and know that they are what we call smart office buildings with their own capability built in to bypass, to know that bypass is a real and present threat to the economic health of the telephone system.

It has been accurately estimated that approximately 20 percent of the revenue from Tennessee's local exchange is vulnerable to bypass of the local network, that 20 percent of the revenue translates into a loss of $200 million, which we as regulators are going to be sorely looking for and wondering who is going to make up those costs.

The top 5 percent of Tennessee's customers generate 67 percent of the total State revenue in tolls. It is my opinion that the problem emanated from ill-conceived actions on the part of regulators in Washington. Because the telephone network obviously covers the entire Nation, the solution rests with the only body authorized to formulate national policy, and that is the Congress. There are different solutions available, some say tax bypasses, others say make bypassing illegal.

I am not sure, as Chairman Wyden said earlier, that trying to put a cork on technology is necessarily the wisest way to go, but we do need to look at what is equitable and what is constructive.

I don't think all nontraffic sensitive costs of the telephone networks should be borne by the end-user or the customers. I think the entire network must be considered as a whole. I think that without the end user, the long-distance network is of little value and without the long distance network, the local exchange is greatly diminished.

They are all parts of a whole and we must come up with a comprehensive and cohesive solution to preserve and protect the entire system.

I urge you gentlemen and your colleagues to establish guidelines as a matter of law which the FCC must obey.

I think it is probably long overdue that we look at the 1934 Communications Act and make it more current. I am looking to a system where the cost would be equitably shared by both the end user customer and the national network.

Mr. WYDEN. Commissioner, whenever I hear about end users, I always think about what we have been saying in Oregon, whenever somebody says end-user, I keep remembering that they are voters. Excuse me for interrupting.

Ms. ESKIND. And customers. One of the things I do try to avoid is the jargon of regulation and I thank you for reminding me.

I believe that sharing of costs while not completely eliminating bypass in conjunction with more innovative liveline rates for residents and small business customers will preserve the universal concept which is an essential and vital part of our Nation's social and economic fabric. In the current environment I think change is inevitable and I think the FCC has heard what you and we and customers have been saying and I think they have heard particularly what Congress said, which was we will give you more time to get your act together and come up with solutions that are realistic.

I think evidence of that is the rumor that instead of the $4 cap by 1986 on access charges, that the FCC is coming—may be coming with a new plan late in December which will further slow the pace of assigning charges and it will be a dollar per line or less, increasing in increments of 50 cents a year, thus reaching the $4 cap in 1991 instead of in 1986.

I think if this is the FCC's decision and if Congress does not move one way or the other on it, I think that slowly applying these charges is far more logical and far more sensible. It allows for corrections along the way and it reduces the initial impact.

I think it is impossible to predict what is going to happen, but I think we need to be overvigilant to avoid unnecessary economic social and political turmoil. I pledge my support as always to my friend Jim Cooper and to other members of the Tennessee delegation and to members of the committee to working together to find an acceptable solution to the problems which we now know and those which we don't yet know brought about by this momentus change in our telecommunications industry and I want to thank you for the opportunity to appear today and again thank you for coming to see us.

[Ms. Eskind's prepared statement follows:]

PREPARED STATEMENT OF JANE ESKIND, COMMISSIONER, TENNESSEE PUBLIC SERVICE COMMISSION

I want to thank you, Congressman Wyden and Congressman Cooper for your concern with the continued affordability of telephone service across Tennessee and the country, and the impact of recent events on small business' and phone customers. I truly appreciate your coming to Nashville to hear from both regulators, small business people and rate-payers.

I am here on behalf of Tennessee's 44,000 small businesses as well as the nearly five million citizens of this volunteer state. We are all concerned about and committed to preserving our tradition of excellent telephone service at affordable prices. Maintaining universal service for present and future generations is vital to our social and economic well-being.

I expect historians and economists years from now will question the judgment, if not the sanity, of the individuals in President Reagan's Department of Justice who brought about the dismantling of the best telephone service in the world. There was a healthy sanction built in to having one company rather than many responsible for local networks, long distance networks, equipment and service standards. Accountability worked in the customer's behalf. Diffused responsibility will be another matter. The maxim, "If it ain't broke, don't fix it" will never be more aptly applied.

The price shock we are beginning to experience is the result of not only divestiture, but also decisions by the Federal Communications Commission which ordered:

(1) The detariffing (deregulating) of customer premise's equipment;

(2) The expensing (versus capitalizing) of inside wiring (or station connections);

(3) Accelerating depreciation schedules and

(4) Assigning non-traffic sensitive costs to interstate toll expenses on the basis of a flat 25% allocation, as opposed to the previous formula, (which was the subscriber plant factor (SPF) in the ozark formula).

These changes mandated by the F.C.C. in Washington resulted in average monthly increases of nearly four dollars per line, per month.

Most of the debate brought about by divestiture surrounds the issue of "access charges." This plan devised by the F.C.C. intends to shift the recovery of non-traffic sensitive investment in the telephone network from a per-toll call usage charge to a fixed monthly charge per telephone line to be paid by the end-user.

In theory the increase in monthly charges should be exactly offset by a reduction in long distance rates. However, customers who make very few, if any long distance calls would experience substantial increases, while those with heavy toll usage would enjoy substantial reductions.

The rationale of the F.C.C. in developing the access charge plan is that the cost of long distance under the existing pricing arrangement is artificially high and overpriced relative to its cost.

Prior to divestiture and to competition coming to the long distance market, there were no alternatives needed to the existing pricing arrangement. But alternatives for long distance service do exist in the form of private microwave networks, optical fiber networks and satellite networks. These alternatives have been named "bypass" because of their ability to offer communication services without using the traditional telephone network.

Simply stated "bypassing" is the expected result of a consumer searching the marketplace for a product or service at the lowest possible cost. Some uninformed or unrealistic observers are saying that "bypass" is only a scare tactic invented by the telephone companies in order to raise the cost of basic telephone service.

Without going into the voluminous information about special access, private networks, "smart" office buildings and resellers—believe me when I say that if current pricing practices persist, bypass is a real threat to the affordability of basic one-line universal telephone service.

It has been accurately estimated that approximately 20% of the revenue from Tennessee's local exchanges is vulnerable to bypass of the local network through alternative technology, special access and resale. If that should happen to the local exchange, monopoly segment of the business, those lost revenues would have to be borne by the remaining customers of the network, including residential and small business customers, the focus of our discussion today.

I wish that I could tell you that the Tennessee Public Service Commission had the power and authority to act and solve this very serious problem. We don't. The problem emanated from ill-conceived actions on the part of the regulators in Washington. Because the telephone network obviously covers the entire nation, the solution rests with the only body authorized to formulate national policy—the United States Congress.

What are some of the solutions available to the Congress?

Currently, the federal government collects taxes on average of $8.00 per month per telephone line in Tennessee. It has been suggested that Federal taxes could be increased on bypassers and the resulting revenue be allocated back for end-users as a continuing subsidy. Others have suggested that Congress merely pass a law making bypass illegal.

These solutions deserve additional discussion. Dr. Lee Selwyn, an independent, consumer-oriented expert on the communications industry, recently said, and I quote:

"As our nation moves away from a product-based economy toward an information-based economy, the role and importance of telecommunications increases. Indeed, telecommunications bears the same relationship to an information-based economy as transportation does to a product-based economy. Artificial interference with the smooth movement of goods and services can have farreaching effects on the basic health of our economic system, and the same is true for the 'transportation' of information through our telecommunications networks. Imposition of the burden of the access line subsidy upon U. S. business and industry increases the cost of doing business, and the prices of goods and services generally, and reduces the competitiveness of this country in the international marketplace. Destimulation of innovation in both the provision and use of telecommunications services will inflict permanent and irreparable damage to our nation's ability to maintain a strong competitive edge in the information-based economy of the future."

However, I do not agree with the F.C.C. that all non-traffic sensitive costs of the telephone network should be borne by the end-user. The entire network must be considered as one single entity. The local exchange system is greatly diminished in value without access to the long-distance network. And conversely the long-distance network is greatly diminished without access to the local exchange network. They are parts of a whole.

To preserve and protect the entire system, I strongly suggest Congressmen Wyden and Cooper, that you and your colleagues in the Congress establish guidelines as a matter of law which the F.C.C. must obey.

It seems to me, accepting the premise that the entire network is not divisible, that each segment — that is local exchanges and the interexchange carriers should share the non-traffic sensitive costs which translate as access charges. I believe that such sharing of costs, while not completely eliminating bypass, in conjunction with more innovative lifeline rates for residence and small business customers, will preserve the universal service concept which is an essential, vital part of our nation's social and economic fabric.

In the current environment, change is inevitable. I believe the F.C.C. has heard the concerns of the state regulators, the Congress and a concerned citizenry. This discussion started out with original access charge projections by the F.C.C. of $8.00 to $12.00 per month. Subsequently, they announced a cap of $4.00 for residential and single-line business customers. It's rumored their "next round" decision, promised in late December of 1984, will further slow the pace of implementation to an initial $1.00 (or less) in 1985, increasing in increments of Fifty Cents per year—thus the $4.00 cap in 1991 instead of 1986.

I believe everyone agrees that a slow steady move toward change is the most preferable course. Such a course of action allows corrections along the way based on actual experience to date, and reduces the initial impact.

We are, after all, in the first ten months of divestiture. It is impossible to predict with certainty, what actual experience over the next several years will show.

It is of the greatest importance that we all understand the current problems; closely monitor developing experience and make whatever mid-course corrections such evidence dictates. To do otherwise will cause unnecessary economic, social and political turmoil. Abrupt and drastic pricing changes of whatever type will do serious harm to our social and economic systems.

I pledge my support to my friend Jim Cooper, and to the other members of Tennessee's delegation in Congress to working together for an acceptable solution to the problem known and unknown, brought about by this momentous change in our telecommunications industry.

I thank you for the opportunity of sharing these thoughts with you. I look forward to working with you in the months and years ahead.

Mr. **Wyden**. Thank you for a thoughtful statement. I thank both of you for expressing very well the views of your constituents.

Let me turn to my colleague to begin.

Mr. **Jim Cooper**. Thank you, Mr. Chairman. We are very proud of the Tennessee Public Service Commission and the reason for that pride is the two commissioners before us and Commissioner Cochran because these folks have had tremendous courage and ability in facing a tremendously tough problem.

As tough as the congressional job is, I don't envy you guys. You have done a tremendous job in holding down phone rates for customers.

There is incredible pressure, and I don't think the public realizes how much pressure you are under, to withstand the raising of telephone rates.

I feel safer, as a Tennessee ratepayer, having you in your jobs. You have done a tremendous job.

First, Commissioner Bissell, I would like to ask you, or Commissioner Eskind, it is interesting to me our ability to tax by passing or our ability to regulate it in some way and I am interested in your perspective as utility commissioners, to what extent, right now under Tennessee law, would the public service commission have the right or the ability to go after the folks who are bypassing?

Are they able to get off scot-free now and you can't touch them or is there a simple law we could add to the books to give you the right to levy a charge on them so they couldn't get by scot-free?

Ms. **Eskind**. I don't think we have any law right now that would allow us to tax. We are not a taxing body and that is in essence what it would be.

I think the State is a taxing body and the Congress is a taxing body, but I don't think the public service commission—we just set rates.

Mr. **Bissell**. I think we could regulate, as we do other utilities, a bypasser that would hold itself out to provide telecommunications business and defined under the statute. I think it would have to be beyond simply communicating, however, perhaps from one of its offices, let's say, in Nashville to another office in Memphis. I believe that any type of tax of bypass where perhaps a bypasser would be required to pay a reasonable amount of money to the upkeep of the local network as a matter of public policy to keep local rates down or as a matter of economic justification based upon perhaps the local company's development of the technology that permits the bypass ought to come from the Federal level and ought to be a uniformly applied tax or regulation.

Mr. **Jim Cooper**. I hope that, at the Federal level, we will be able to come to some sort of solution to the problem, but as you know, the bill which passed the House of Representatives, H.R. 4102, while it succeeded in the House, failed by a margin of four votes in the U.S. Senate so that it is going to be very difficult for Congress to come to resolution of the issue, but I hope that we will be able to reach a consensus.

We need to make sure that happens.

Mr. **Bissell**. Can I ask a question?

When did that bill come before the Senate? When was it voted on?

Mr. **Jim Cooper**. Early last year. It ended up being moot, I think, due to the FCC decision to delay the imposition of the charges. As far as I understand it, it could have been at committee level.

As far as I understood, it was defeated in the Senate.

Mr. **Bissell**. It is my understanding, Congressman, that perhaps they delayed action on it, but there was some vote I know that was very close.

Mr. **Wyden**. Would the gentleman yield?

The House voted to bar the residential access charges and the single line business access charge. The Senate began consideration of it, and on a procedural vote, it was tabled and at that time it was essentially clear that the FCC acted as a direct result of political pressure—I happen to share your view, that there is only one reason that was done, that there was an election coming up and as a result of all these forces at work.

Mr. **Bissell**. My recollection has been jarred and I recall that vote did occur and occurred right after the FCC's announced delay, which I think had an impact.

Mr. **Jim Cooper**. It was interesting to me as a technical matter how exposive all our colleagues viewed the issue and as I recall, H.R. 4102 was passed by the House on a voice vote, which is a general way to hide the way particular Members vote on an issue.

There was a key vote on an amendment earlier which was split, as I recall. It was one of the most partisan party line votes I recall in my 2 years in Congress. It is amazing how things fall out and how when the votes are cast, it is surprising where particular parties end up.

Mr. **Bissell**. In Tennessee, it was right down party lines to the vote.

Mr. **Jim Cooper**. Commissioner Eskind mentioned that this congressional pressure, this ferment in Congress, has been somewhat effective and the recent talk is reducing the access charge when it is imposed down to the $1 level, whereas they wanted to start at

$8. So that is an encouraging sign that you all are being heard even by the folks who seem relatively deaf sometimes at the FCC.

That is still not enough, in my opinion. Even if they reduce it to $1, once the concept is accepted by the customers, that allows the FCC to take off the cap and raise it. I worry about the camel's nose under the tent, the baby crocodile that soon grows up and you don't know what you have got.

It is a situation that I would hate to see get started. I understand that rural customers today are heavily subsidized and most people in urban areas think we should apologize for that subsidy. I don't see that there is a need to apologize for that.

I think we are entitled to service. It is a subsidy, but let's face the facts—it is a subsidy that we need to keep. To eliminate that subsidy would be devastating to rural America.

We have to keep the help that has been coming for a long, long time.

Ms. **Eskind**. Congressman, in response to your comment, were we functioning under the mode that we have functioned for so many years, which was a single telephone company providing both local and long distance service, we could function as you described with a minimum impact on local customers, on residential customers, small business customers.

We have changed from a subsidy concept to a pricing service to cost and rural customers are being subsidized right now because the cost of providing service to remote rural areas is far more expensive than providing all of us who live clustered together in urban areas.

The concept of access charge, however, goes with the concept of pricing service to cost, and I don't know how we can be equitable and ignore what we are trying to do, making telephone service a cafeteria where you pay for what you use.

That being the new inclination of the competitive vendors and of the FCC's original decision to allow MCI to offer long-distance service, I don't know what our alternatives are.

Mr. **Jim Cooper**. I appreciate that statement. I would like to point out two side areas, not in the direct focus of the hearing. Telephone rate de-averaging, as I understand it, would be a tremendous threat to rural America, it has the potential for raising long distance rates even more and we need to be aware of that threat and a threat of concern to the chairman and I is how much is at stake unless it can be passed next year by Congress.

It was passed by the House, but stopped in the Senate and that involves billions of dollars to rural telephone co-ops. It is absolutely essential in my opinion for rural areas that that bill be passed but yet we face another roadblock.

Unless that bill is passed, it seems to me that we face another devastating attack on rural telephone service. We are facing these onslaughts from many different areas at once. The access charge area is probably the most visible, but we are under siege from many different fronts.

Mr. **Bissell**. Congressman, let me just say that I certainly agree with your position, that we ought to subsidize to some extent the rural America. I think they deserve affordable telephone service.

It is an essential service. The whole thrust of my remarks here today is that these kinds of decisions pertaining to de-averaging between major urban areas, access charges, are political questions and not just purely economic questions.

It may be the FCC's position that we have to price consistent with the actual cost, but it is not my position that we have to do that as a public service commissioner.

I agree with you that if we let the FCC get its foot in the door with any kind of access charges, they have already stated that the principal theory behind the access charge and where they want to go with it is to make the access charges pay for the nontraffic sensitive costs of the local network, and if you do that, eventually they get to where these end user access charges pay all these nontraffic sensitive costs and, in effect, the long distance providers, interexchange carriers, are not going to be paying for the use of the network as that use pertains to nontraffic sensive costs, they will get a free ride, and that is just not right.

Mr. **JIM COOPER**. An excellent point. No further questions, Mr. Chairman.

Mr. **WYDEN**. I think my colleague has asked key questions. I have a couple of quick things.

Commissioner Bissell, I agree with the general comment that you made, that what we have really seen the FCC do is look at something that resembles supply-side telephone service. The theory is that if you give the rate breaks to those who are big and those who are powerful, somehow that will create a kind of overall revenue base and help stabilize things forever, the middle class, the poor and the like. I think we ought to be very careful about starting off on another supply side experiment when the evidence is certainly not in from the first one begun in the economic area in 1981.

I just have two questions. Let me ask, Ms. Eskind, you talked about the accountability of the old system and I think it was something that everyone felt very comfortable with. You could get a person to come out and repair your phones and take care of your service needs quickly. Today you see things like the Art Buchwald column where he is trying to find a repair person and he says you have to call Japan to get somebody quickly. I wonder about whether or not the commission has received a lot of complaints from small businesses about service in the last year since the breakup, and if so, if you could describe what those problems have been and the number of them and elaborate a little bit on the area.

Ms. **ESKIND**. I will be glad to supply the committee with a detailed report from our utility service division on what kind of complaints we have received, from whom, with what frequency.

[See Appendix D.]

Ms. **ESKIND**. One of the things that has happened is that we get calls in our office, and I am sure Chairman Bissell in his and Commissioner Cochran also, from people who are confused, confounded, befuddled, they don't know who they are to call and they don't know why they are having to pay for things which have heretofore been included in just a single rate. We have had people who have called our office saying, "Gosh, we have a terrible service delay in getting equipment. We want to start our business. We need private lines, we need this, we need that. We can't get anybody to act," and we have tried to intercede in their behalf even though we don't have jurisdiction, and we have in some of the equipment questions that have been changed and some of the long lines that are now no longer—they are the deregulated market lines from here to Texas, for example, one constituent comes to mind with her concern about getting a line to tie into a computer in Texas—we have been treated very kindly and we have asked for help and we have been given help and we have had people be responsive to the request which comes through our office even though we have no jurisdiction over many of the things, but we share the concern of everyone who doesn't know whom to call and don't understand why they are having to pay.

We have a big headline saying that we refuse to allow a charge for directory assistance and then somebody says, "Why is it on my bill?" Well, it is a long distance directory assistance charge that is on their bill over which we, of course have no jurisdiction. So the confusion in the public—also there is a sort of resignation to accept something that is less good than what they had simply because they just get tired of fighting something that they feel is like fighting the proverbial city hall, and we sense both those things in the calls that we receive, but I will give you specific calls and comments. I am afraid we haven't kept track as diligently of those calls over which we have no jurisdiction, but we will try to approximate them for you.

Mr. **Wyden**. We will keep the record open. It is helpful because we sense that there is a growing number of complaints and concerns. I think the confusion and frustration that you talk about is widespread and one of the things I am starting to hear discussed now, and I happen to think would be a great public service and a chance to bring phone companies and consumers and people like yourself together as we try to work through this, is for people in your position to be putting on some workshops and getting out booklets or a toll-free line, so we can find convenient ways to minimize the confusion.

When I talk to phone company executives, they are as frustrated as the senior citizen groups. I hope we could start to see public utility commissions and others go forward with communication efforts. The choices are becoming available for long distance, people don't know how to proceed, where to turn to for service. There is a real role for aggressive advocacy in at least laying out the choices. We are not going to be able to eliminate all the confusion in 2 days, but clearly there is a role for booklets, workshops, toll-free lines, meetings with the companies and consumer groups and the like, and I would hope we could see that from the commissions.

Mr. **Jim Cooper**. Mr. Chairman, I would like to congratulate this commission for its outstanding work in going all over Tennessee in person to communicate some of these details. I know I have seen commissioners in every nook and cranny of my district and my district has some areas so remote that some of the people don't know they live in Tennessee. They are so close to the State line oftentimes they orient themselves to Kentucky, Virginia, or Alabama instead of the State that they actually do own property in so the commissioners have worked incredibly hard to cover this vast State of ours.

Bristol, TN, is closer to Canada than it is to Memphis. That is the area they have to cover. That is a long way and sometimes the roads aren't as up-to-date as they could be, so I congratulate you on the efforts that you have already made.

Mr. **Bissell**. Thank you, Congressman.

I searched in your remarks for something that you suggested we hadn't done. We have published booklets, we have a toll-free number into the public service commission where we received literally hundreds of calls a week—during January and February I stayed in my office from 6 in the morning to 6 at night and took consumer calls, publicized the fact that I would be there to take those. We appreciate those suggestions.

Mr. **Wyden**. One of the other things that I hear being talked about, and it might be again in the interests of all the parties, and, of course, we are looking for things that consumers and companies and the regulators can all agree on, is this idea of some truth in pricing kind of statement on a phone bill. You open up your phone bill today, and you have to be an accountant to wade through that sheaf of papers that is coming that. Clearly as we try to set communications policy, try to move as close to cost-based pricing as we can and still have some basic fairness features and basic of equity, this idea of truth in pricing where we actually breakdown the bill and say, "Here is what it is going to be for this or that or something else," so that people can understand it, I think has some merit. I wonder if you all are looking at that and have talked about it.

Mr. **Bissell**. We just had a meeting with South Central Bell officials Monday who came up from Birmingham. I had suggested some 12 changes along with the staff to South Central Bell about how we might consolidate the bill, leave out repetitive information, perhaps leave out some of the accounting and computer language, technological jargon, and so on.

The company has come back with a great idea, and I think it is probably the first operating company that has really suggested that they are going to make some very dramatic changes in the bill. They have indicated to us through some specific suggestions and specific actions that probably the bill next June will be about one-half the size that it is today and that it will be a lot less repetitive and more understandable. That should be available to Tennesseans some time perhaps next June. Heretofore, I think most Tennesseans have been paying their bill without really understanding what they are paying for and being able to check to see that they are being billed the proper amount, because they simply have not been able to understand what they were being billed for and be able to read the bill and understand it, but I think that that has been worked out.

South Central Bell will, in my judgment, lead the Nation in making these rather dramatic changes in the bill and they have indicated to us that we are the only State, however—and I am somewhat surprised about this—that has made specific suggestions to them and has asked for a meeting as we have in Tennessee. So we are very proud of the progress that has been made.

Mr. **Wyden**. I am very pleased to see that at least somewhere we are moving toward being able to read phone bills without having a foreign language interpreter. I think that is a wonderful thing. What I would like, because the task force can help facilitate this, if you could make available to us right away whatever material you have by way of drafts or concepts that you are looking at, I would very much like to get that in the record, put it in the report that we are going to be filing next month. I think that would be a tremendous contribution on the part of yourself and Bell South. If you could get whatever you can right away to Mr. Hall, who is the staff director of the task force, that would be very helpful.

Mr. BISSELL. We will get that for you.

[See appendix C.]

Mr. BISSELL. I commend the company for being so responsive. We have been working with them since last spring on some 12 suggested changes and they have adopted most of those changes and thrown in some of their own.

I want to commend South Central Bell Tennessee for helping us take the initiative to bring about these changes and specifically, Mac Hunt, who is the vice president in charge of community relations.

What was your question specifically about truth in pricing?

Mr. WYDEN. The idea of actually trying to break the bill down so that it is understandable as we move toward a new set of policies is excellent. Commissioner Eskind made the point of bringing the Communication Act into the eighties—we have a 1934 Communications Act. It is a little like riding around in the space age in a Model T. When the act was written, most of what we are doing today wasn't dreamed of. I think we need to try to get as close to cost-based pricing as we can and have some basic equity features also to ensure that we keep a universal service ethic.

To get to the goals of efficiency and fairness, I think it would be helpful to see a phone bill broken down. I have heard talk of this concept of truth in pricing where you could read, in understandable terms, your bill. That was how I got into this question before all your other valuable comments.

Mr. BISSELL. Let me say that we have had other problems with the truth-in-pricing concept. We have had, and you were talking about this, so you are already aware of what we have in the way of optional measured service in Tennessee—has anybody else talked about it? Over half the people in Tennessee, probably close to 70 percent of the people in Tennessee, today have optional measured and message telephone service. The message service, incidentally, our lifeline service as we refer to it synonymously, has been a very popular option. I think Tennessee has led the South at least in providing these optional alternatives to the consumers of the State.

In cities where it is offered, we find that a growing number of people are subscribing to these options. I think probably in most cities where it is offered, the subscribers that have chosen these alternatives are around 15 to 20 percent in some of the areas. But it is strictly optional and it is strictly only beneficial to consumers that do not have to make a lot of telephone calls, who simply need the telephone for basic day-to-day communication with the outside world and don't use it often during the day.

Certainly people like myself, with two children, can't benefit from it. But the lifeline program that we have is available to everyone. It is not a welfare program. You get 30 free calls for one-half the basic rate for telephone service and an unlimited number of incoming calls, 10 cents a call, for each call thereafter, so everybody making about 100 calls or less on their lifeline pays less. It is working beautifully and I am proud of that.

We have had a problem with the company trying to push the measured program which is much more complicated. It is their program. Commissioner Eskind and I voted for the other plan to be optional for the consumers, the lifeline program, so we have had some problems with the company pushing their own measured program and we have had some problems with the operating companies in Tennessee, when consumers call in and ask for telephone service trying to sell a Cadillac plan, the pushbutton phones, and the call forwarding options, and so forth. We are working that out.

When we find that they have become too aggressive with their marking program, they are very quick to get back in line and start quoting all the prices as is required by their tariff and as is required by the rules that we have adopted at the public service commission.

Mr. JIM COOPER. I am thankful that you all are the watchdogs. More power to you.

Mr. WYDEN. Thank you both for an excellent panel.

Our next panel has Michael Hicks, region commercial and marketing manager, TDS, Tennessee Region, Knoxville, TN; Ozle L. Allen, manager, Ben Lomand, Rural Telephone Cooperative, Inc., McMinnville, TN; and Robert M. Wolfe, assistant vice president of corporate planning, Bell South, Atlanta, GA.

Mr. WYDEN. We are a bit behind. I will put your prepared remarks into the record in full. If you could summarize your written testimony today that will save time.

Why don't we begin with Mr. Hicks.

TESTIMONY OF MICHAEL E. HICKS, TENNESSEE REGION STAFF MANAGER, TELEPHONE & DATA SYSTEMS, INC.

Mr. HICKS. I would like to thank you for the opportunity to be here. I am Michael Hicks with Telephone & Data Systems. We operate two independent primarily rural telephone companies in the State of Tennessee; Tennessee Telephone Co. and Concord Telephone Exchange. We have around 45,000 customers to which we provide service. We have a diverse mix of customers as shown by the fact that four of the exchanges which we serve are suburbs to Knoxville and Nashville, giving us an urban flare, however, the large majority of our customers are more rural in nature.

We are REA financed. We fit the typical REA profile of a company that has low subscriber density, and is highly leveraged. The predominantly rural nature of our companies make our costs high because we have to string cable further to reach our customers and repairmen must travel a lot further to answer repair calls. We talked a lot about end user access charges this morning, but there is another side of the fence, the access charges to the interexchange carrier. What level should those charges be? Through the access charges there are support mechanisms that provide recovery of some of the high costs of the rural companies, so we have to be sure that the access charges are adequate.

The FCC has been talking about changing the rate of return upon which these access charges are based to an individual company-type basis. When an REA financed rural company comes into play, they are typically highly leveraged with low cost government loans. If you go to an individual company rate of return, you end up with a rate of return for the rural companies much lower than the rate of return for the Bell-operating companies. What happens from the setting of your access charges rates in this matter is that you counteract all the advantages the Government was trying to achieve in making affordable telephone service available to rural America.

Another issue is the support mechanisms in the past to the telephone companies who have high costs. The rural companies are typically the ones with the high costs and we feel there should continue to be some kind of a high cost factor which the FCC is now addressing.

The industry is working to develop a high cost factor to compensate the rural high cost companies. The factor for the rural companies would be if your costs are more than 110 percent of the national average, 90 percent of it could be recovered back through a high cost fund.

The impact of these two issues could be a lot greater than $2 or $4 end user charge to the rural subscriber. If you combine these charges along with deaveraging and end-user charges the rate impacts on the rural small business customer could be overwhelming.

At this time, the industry and the rural coalition have been working together and finally have gotten the attention of the FCC that they should be addressing these facts. FCC, along with the Federal-State joint board, are considering these issues and it seems they are moving in the right direction. At this time, we don't necessarily urge legislative action, but we urge you to monitor this along with us so corrective action can be taken if needed.

[Mr. Hicks' prepared statement follows:]

PREPARED STATEMENT OF MICHAEL E. HICKS, TENNESSEE REGION STAFF MANAGER, TELEPHONE & DATA SYSTEMS, INC.

My name is Michael E. Hicks and I am employed by Telephone and Data Systems, Inc. as the Tennessee Regional Staff Manager in charge of Commercial, Marketing, and Revenue Requirements. In the State of Tennessee, TDS owns and operates Tennessee Telephone Company and manages Concord Telephone Exchange, Inc..

Tennessee Telephone is comprised of fifteen dial exchanges serving approximately 28,000 customers in all of Decatur, Wayne, and Perry Counties; and portions of Benton, Carroll, Henderson, Marshall, Lincoln, Giles, Rutherford, Davidson, Wilson, and Knox Counties in Tennessee. Most of our exchanges are very rural in character. Ten of them presently serve less than 1700 customers each, and eight of these serve less than 850 customers each. Eleven exchanges comprise approximately a 1400 square mile area in West Tennessee which is sparcely settled and where the primary sources of income are agriculture, timber, pulp and paper products, and locally owned and operated small business.

Our three exchanges in Mt. Juliet, LaVergne and Halls Crossroads adjoin greater metropolitan areas. Mt. Juliet and LaVergne are Nashville bedroom communities while Halls is surburban to Knoxville. These three exchanges are considerably more urban in character and are experiencing somewhat more rapid growth through both residential and industrial developement.

Concord Telephone Exchange, which is managed by TDS, serves approximately 7700 customers in West Knox County and is basically a bedroom community to Knoxville. I might add that when the initial telephone service was provided to these urban exchanges, they too were very rural in their customer makeup. It has only been in recent years that the metropolitan areas of Knoxville and Nashville have grown to include these surburban exchanges.

Concord Telephone Exchange and Tennessee Telephone Company are REA borrowers and fit the typical REA Company profile of low subscriber density and high costs. In general this means our costs of providing service are higher because we must use more telephone line to reach our customers, and must send installation and maintenance personnel further and must make a profit on a smaller customer base. If it were not for the REA Loan Program and the system of supports provided by the nationwide and statewide toll networks our rates would become simply too high for many of our customers to afford.

The REA Program has made it possible to construct facilities in areas where the "marketplace" had already found service to be unprofitable, and which could not attract private financing resources. However, the high cost of operating these facilities has not been covered by any REA program. How then have we been able to price our services so that they are both affordable and promote "universal" telephone service?

Traditionally, long distance service throughout this country has been offered as a "partnership" among many local exchange companies and AT&T. As a part of this partnership for the provision of "long distance" (toll) service all companies "pooled their long distance revenues. Each company then pulled funds from this pool based upon their individual costs including compensation for non-traffic sensitive plant (local loop) investments. It has been from this toll compensation that companies have recovered a portion of their high costs and thus price their basic service rates so that they were affordable for all.

As we are all aware, the Federal Communications Commission (FCC) has replaced this plan with a system of access charges for interstate service which became effective on May 25, 1984. These charges are currently applied to interexchange carriers (generally on a traffic sensitive or usage basis) and to local exchange multi-line business users on a monthly flat rate basis.

Residential and small business end user charges are scheduled to be implemented June 1, 1985, and be capped at $4.00 until 1989. A system of access charges was necessary because, as part of the settlement of the AT&T antitrust case that divested the local Bell Operating Companies from AT&T, the United States District Court for the District of Columbia required the Division of Revenues process for the Bell System companies be terminated and replaced with such an access charge pricing structure.

As a result of the new era brought on by various developments, there are several issues currently before the FCC which can, and indeed will, have significant impacts on the long-term viability of small telephone companies throughout the nation. The current practice of the FCC is to price all interstate access services on the basis of an industry-authorized rate of return on total capital.

The FCC, in Docket 84-800, has proposed revising this practice to reflect divestiture and cost of capital differences among carriers. While it may be appropriate for the FCC to review the relevant business and financial risks and to determine individual, authorized rates of return for the Bell regional holding companies, GTE telephone operating companies and possibly other large telephone operating companies, this would not be practical for the large number of smaller exchange carriers. We strongly believe that an overall industry rate of return continues to be the most appropriate method to ensure adequate protection for the rural, high cost, highly leveraged, REA companies and all other small telephone companies. These exchange carriers should continue to be authorized an average industry return on capital for rate development, High Cost Formula calculations and, to the extent earned, for pool settlements.

The average return should be based on the average of the Bell regional holding companies, or the average of the companies described above for which individual returns are authorized, or on a return for all exchange carriers, although the last approach is less practical and needlessly burdensome for small companies. The important principle is that the average authorized return on capital should not be set on any basis that excludes carriers for which separate returns are established. It would also be inappropriate and would disserve smaller companies and their customers to establish authorized rates of return for any other group or subgroup of the industry.

Universal telephone service must be protected by a mechanism which provides a contribution designed to mitigate significant disparity in basic rates for companies serving areas where costs are substantially above the national average. A high cost mechanism can be established which provides small and rural companies with the support described in this paragraph and under which the portion of the carrier common line pool attributable to such support for high cost small and rural companies produces a maximum charge to interexchange carriers that is less than one cent per minute. A plan should be adopted which provides the following support:

Carriers that have no more than a predetermined amount of access lines in a particular study area, as traditionally defined, should begin by allocating 25% of their total unseparated nontraffic sensitive costs up to 110% of the national average to the interstate jurisdiction for recovery under the FCC's rules governing treatment of the amount allocated by the 25% gross interstate allocator. Ninty percent of the company's cost in excess of 110% should then be allocated to the interstate jurisdiction for recovery from the carrier common line pool.

This high cost support mechanism should be based on a uniform industry cost of capital which should be the 12.7% authorized interstate rate of return until a new industry rate consistent with my earlier testimony has been adopted. This two-part process will (a) implement the small and rural companies proposal to obtain high cost relief with respect to 90% of their total unseparated non-traffic sensitive costs over 110% of the national average and (b) assure that such companies will always allocate to the intrastate jurisdiction at least 75% of a base that is 10% more than the national average level of unseparated non-traffic sensitive costs and almost always more.

As major milestones are achieved in the implementation of the FCC Access Charge Plan, reevaluation of the key issues should be undertaken by all parties, and the FCC should adjust the plan if and to the extent that any modification is shown to be necessary and not to interfere with the principle adopted here that customers of companies serving high cost areas should receive support for a percentage of their total unseparated nontraffic sensitive costs in excess of the national average of such costs. The issues to be reviewed include the status of universal service, bypass, and the extent to which non-traffic sensitive subscriber loop costs should be recovered through usage sensitive access rate elements, or flat rate end user charges.

We are heartened that the FCC and the Federal-State Joint Board are re-examining many of these issues. Therefore, we do not advocate legislative action at this time, however, we do hope that you will join us in closely monitoring these regulatory actions to insure that the special problems of small and rural telephone companies and their subscribers are adequately addressed. Thank You.

TESTIMONY OF OZLE L. ALLEN, MANAGER, BEN LOMAND RURAL TELEPHONE COOPERATIVE, INC.

Mr. ALLEN. I am Ozle Allen and I am the manager of Ben Lomand Rural Telephone Cooperative. Today I am here representing the National Telephone Cooperative Association in Washington, which has approximately 450 members.

It seems as if my type operation is very different from a lot of these urban companies. I am serving strictly rural areas. I have got about 19,000 subscribers. We have got long loops. We have excessive costs. Each loop is approximately $1,900, $2,000 per loop. I have a density of seven subscribers per mile and I am serving a group of people that their income is approximately $12,800 per household or family.

Also, another figure I would like to point out is that I have 3,000 homes in my district that have no telephone service, that is about 15 percent of my establishment that has no telephone service. It is available to them because I am a REA borrower and I am forced to make service available, but their financial condition is such that they can't afford telephone service.

As we move on, I thought those few brief remarks might be advantageous to acquaint you with the type area that I am serving, but I have, with my staff, prepared two studies that are very evident of what we are saying, "this is costing those end users to have the availability of toll calls in their businesses since the multiline access charges have been implemented May 25."

The first study indicates that 42 percent of my subscribers make $5 or less toll calls. Keep in mind that is interstate, intrastate, "$5 or less," the whole works. Also, 15 percent of them make no toll calls; 15 percent of my 19,000 subscribers. I wanted to use that to support this other study that we have been running since May 25, since multiline access charges have been effective on multiline businesses.

We must keep in mind also that we are talking access charges, versus interstate calls only. We used 22 subscribers at random, they weren't handpicked. They run from 2 trunks to approximately 15 or 16 trunks per subscriber. Each month this study was run on the same group for 4 consecutive months and the end results were identical, that it cost 20 of those subscribers money to have end user access charges accessed. Only two of them stood to profit according to this study, and keep in mind also, that we used the 6.1 reduction in interstate rates in calculating this study. But overall, in the 4 months, it cost these 22 subscribers an additional $3.64 cents per trunk per month since multiline access charge implementation.

Now that is a 4-month study for the same people. So you can plainly see that it has cost my people money to have end user access charges implemented. I guess what disturbs me more than anything, no matter how you whitewash it, how you camouflage it, or whatever the method you use, it affects that bottom line and the bottom line is greater in May, June, July, August than it was in March and April, on their bill: "that is higher rates," and that is why I am concerned for my subscribers.

We hear now from FCC corners that they are considering maybe deaveraging toll and that would be disastrous for us in rural areas as I see it, and new ways of settlement with us, as far as high cost companies et cetera, and I would like to urge you people, you Congressmen and not only you, the rest of our Congressmen and Senators, to monitor, that real closely because if it isn't monitored, it could kill our rural cooperatives and ruin the best rural telephone system in the world.

Thank you.

Mr. **Wyden**. Thank you very much.

[Mr. Allen's prepared statement follows:]

PREPARED STATEMENT OF OZLE L. ALLEN, MANAGER, BEN LOMAND RURAL TELEPHONE COOPERATIVE, INC.

Good Morning, Mr. Chairman and Members of the Committee. My name is Ozle L. Allen and I am the Manager of Ben Lomand Rural Telephone Cooperative, Inc. in McMinnville, Tennessee. Today I also represent the National Telephone Cooperative Association , (NTCA).

NTCA is a national trade association comprised of approximately 450 locally owned and operated small telephone systems providing service in rural areas in 42 states. Most of these systems have obtained capital financing under the loan programs of the Rural Electrification Administration (REA).

The Ben Lomand Rural Telephone Cooperative is a subscriber-owned cooperative financed by REA. We are located in middle Tennessee and serve an area spanning approximately 80 miles North and South and 40 miles East and West. This equates to nearly 3200 square miles of rolling hills of farmland, small towns, and communities. The principal income of our subscribers is from farming, coal mining and light industry.

The Cooperative serves approximately 19,000 subscribers in a four county area, with portions of six other counties which are also a part of our franchished area. This organization began its operations in late 1954, with approximately 2,000 customers. The latest statistics show that Ben Lomand is the fourth or fifth largest cooperative in the nation. We are a 1-party system with an investment of nearly $35 million. This includes investment in cables, poles, buildings and central office equipment. We currently have approximately 2600 route miles of telephone lines in service. The average income per family in our cooperative area is approximately $12,800 per year according to the local Chamber of Commerce and FHMA. Approximately 3,000 households in our area cannot afford service.

When I addressed this Committee in Washington, D. C. last Spring, I described the numerous changes in the telephone industry which may lessen our ability to provide affordable telephone service to our subscribers. Foremost among our concerns is the Federal Communications Commission's Access Charge plan. The impact of the FCC's next action on its Access Charge Plan, which is expected in December, cannot be over-stated. Specifically, the level of assistance to high cost rural telephone systems from the Universal Service Fund created under the plan as well as the method for computing company costs are crucial issues for rural telcos. As I have stated previously, the level of assistance under the access charge plan as currently written is inadequate to ensure that rural Americans will not be forced off the telephone network.

Most recently, the Commission initiated a proceeding to investigate the rate of return issue. The outcome of this proceeding, which will necessarily include a discussion of the method of calculating company costs, is equally, if not more important to the future of small rural telephone systems.

The FCC's proposed formula for computing reimbursable costs for high cost companies abandons the traditional method of computing costs, and instead calculates costs in such a way that would deny assistance to borrowers of Rural Electrification Administration (REA) loans. The proposed formula would compare actual company costs of debt, yet an average cost of equity. This mismatch is unsupportable, makes no sense, and only serves to deny REA borrowers much of the benefits they might receive from the REA loan program. I should point out that a condition of receiving REA money is that a system provide area coverage, or telephone service, to anyone in their service area who requests it, at the system's expense.

Yet another issue which may be brought before the Commission is a request to deaverage toll rates nationwide. NTCA opposes any reversal of the current FCC sanctioned practice of toll rate averaging because such a reversal has the potential to send toll rates sky high.

Clearly any number of deregulatory actions, taken together, could have a severe, negative impact on the affordability of telephone service in rural America. Both the swiftness and the scope of these and other potentially adverse changes can play havoc with small, rural systems, which are in the difficult process of adapting to new methods of allocating revenues.

You may recall that the last time I appeared before you, multiline business

access charges had just been implemented. At that time I submitted probably the first data on the impact of those charges on small businesses. My purpose was to weigh the benefits of end-user charges versus savings from the reduction in interstate toll rates. Based on a random sampling of Ben Lomand small business subscribers, it was clear that the vast majority of small businesses were, on balance, experiencing burdensome increases. Today I would like to present a (4) month study of those same business subscribers which include the June, July, August, September data months.
* The results of this study indicate that 20 of these subscribers experienced rate increases due to the multiline access charges. There were only (2) subscribers who had a slight savings with the access charge of $6.00 per line and the (6.1%) reduction in interstate toll. (Document attached)

One of the two studies that our cooperative made was for the purpose of analyzing the toll calling pattern of the entire cooperative membership. The results are as follows:

** 15% of our subscribers made no toll calls in this period.

42% of our subscribers made $5.00 or less in toll calls (this includes intrastate interlata, and interstate calls.) This study is being presented to support our argument that charges are being accessed on people for services not used. (Document attaced)

I know of no other way in proving my point of opposition against end-user access charges other than the data which has been collected from the studies of our cooperative.

In my opinion, this end-user access charge will inflict a financial burden not only to our cooperative members but to all low toll users - urban and rural alike. I am afraid some of the larger holding companies have not passed this type information on to their customers.

In conclusion, with the supportive data on business multiline end-user access charges being in effect and also the cloud of gloom hanging over us in relation to the implementation of end-user access charges on single lines both business and residence (effective June 1985), I can find no reasons that will cause me to promote end-user access charges for our subscribers.

Extra charges on telephone bills, in whatever disguised manner they might appear, affects the bottom line. At the same time, it is an additional burden to the rate payer.

The latest rumors from the FCC's corner is the fact that, if end-user access charges are killed, the manner of calculating toll settlements will have to be changed - such as settlement for high cost companies, deaveraging of toll which would definitely affect we, smaller companies. Our only hope is, if this theory is initiated our elected legislators, the U.S. Congressmen and Senators must and will intervene and not allow such action to finally tear down the best rural telephone system in the world.

May I say THANKS to you Mr. Chairman, and the Committee, for allowing us to present, in our opinion, supported by facts, the direction in which the end-user access charge is leading us.

Ozle L. Allen, Mgr.
Ben Lomand Rural Telephone Cooperative
McMinnville, Tenn. 37110

10-19-84

* Document

TOLL AND ACCESS CHARGE ANALYSIS

(Sample taken from June - September 1984)
Billing

TELEPHONE NO.	TOTAL TOLL	LESS INTRASTATE	EQUALS INTERSTATE TOLL	RATE REDUCTION 6.1%	NO. OF ACCESS LINES	TOTAL ACCESS COST	NET COST OR SAVINGS
668-2011	$ 618.19	$ 562.79	$ 55.40	$ 3.38	3	$ 72.00	$- 68.62
668-2040	.00	.00	.00	.00	11	264.00	- 264.00
668-2095	621.39	580.27	41.12	2.51	2	48.00	- 45.49
668-2298	794.79	404.99	389.80	23.78	2	48.00	- 24.22
668-2811	1471.33	469.00	1002.33	61.15	16	384.00	- 322.85
668-2876	361.79	292.37	69.42	4.23	5	120.00	- 115.77
668-4121	435.07	94.62	340.45	20.75	10	240.00	- 219.25
668-8941	2350.50	941.14	1409.36	85.96	4	96.00	- 10.04
738-9211	3445.12	2809.18	635.94	38.80	8	192.00	- 153.20
738-9281	49.06	46.43	2.63	.16	4	96.00	- 95.84
738-9500	797.27	246.53	550.74	33.59	10	240.00	- 206.41
738-2241	5580.27	1042.70	4537.57	276.78	9	216.00	+ 60.78
738-2261	1019.82	521.81	498.01	30.37	7	168.00	- 137.63
738-2271	4058.35	2326.10	1732.25	105.67	5	120.00	- 14.33
738-2285	2884.54	1499.86	1384.68	84.46	4	96.00	- 11.54
738-3187	256.56	240.74	15.82	.96	3	72.00	- 71.04
738-5010	604.93	383.23	221.70	13.52	3	72.00	- 58.48
738-5299	1267.49	842.42	425.07	25.41	3	72.00	- 46.59
924-2011	508.19	207.46	300.73	18.34	3	72.00	- 53.66
924-2031	1190.66	233.36	957.30	58.43	4	96.00	- 37.57
924-2091	1359.86	466.63	893.23	54.49	5	120.00	- 65.51
924-2221	5475.68	1583.11	3892.57	237.44	4	96.00	+ 141.44
	$35150.86	$15794.74	$19356.12	$ 1180.18		$3000.00	-$ 1819.82

The cost of the access charges for months June - September	3000.00
6.1% reduction of the toll amounted to	1180.18
Difference between the rate reduction and the access charges on 125 lines for four months	$ 1819.82

This toll study shows that due to access charges being added to multi-line business subscribers these 22 subscribers paid approximately $3.64 more per line per month with the addition of access charges less the rate reduction than they would have if no changes had taken place.

Document **

TOLL STUDY

No. of subscribers involved	100%	18,659
Subscribers with 0.00 toll	15%	2,789
Subscribers with .01 to $5.00 toll	27%	5,132
Total subscribers with $5.00 or less	42%	7,921

NOTE: (1) This same study was conducted a previous month with almost identical results. The results varied less than ½%.

(2) In the above study, of the total amount of subscribers, it was pointed out that slightly more than 40% of all toll calls were Interstate calls.

Mr. WYDEN. Mr. Wolfe.

TESTIMONY OF ROBERT M. WOLFE, DIRECTOR OF SPECIAL PROJECTS, BELLSOUTH CORP., SOUTH CENTRAL BELL TELEPHONE CO., AND SOUTHERN BELL TELEPHONE & TELEGRAPH CO.

Mr. WOLFE. Thank you, Congressmen, for allowing us to input some thoughts to an important meeting as this is, and we have input these same thoughts, tempered perhaps with a little different knowledge in other meetings of this kind.

My name is Bob Wolfe and I have been working on this divestiture issue since January 9, 1982, the day after it was announced that we were going to be split. I want to bring everybody up to date on why we are here today and about the important issues.

For decades in our industry, long-distance services have made much more money than their cost and those profits have been used to subsidize local service. We have heard that over and over again here today and it subsidizes rural service, it subsidizes people who are low cost users of lifeline services, and because of the Bell System's dominant role in the supply of both local and long-distance services, they had a real strong role in not only design of the overall telecommunications network, but in the administration of a complex revenue sharing scheme that distributed these long-distance profits in an equitable manner to all of the participants.

The Bell System no longer exists and that is a hard thing for some of us to really come to realize. It has been almost a year now and it is still hard. But nevertheless, the industry is now split into two kinds of companies for the most part, those who provide local service and those who provide long-distance service. The strong coordination role that the Bell System could play in times past no longer exists nor can it exist because it no longer exists. The business relationship between those companies that provide for the most part local service and those companies that provide for the most part long-distance service is a cautiously evolving relationship and I might best describe it as one that is almost a competitor/customer kind of relationship, because we are both to each other.

The business method of accommodating long-distance calls to the local exchange network is brought about by a system of access charges, that is what the interexchange carriers or long-distance companies must pay to local companies to access those local networks. This access charge concept is also the medium in which the continuation of long-distance subsidies to local service is continued. Under the existing interstate access charge tariff, an interexchange or long-distance carrier pays to a local exchange company for originating and terminating connections about 17 cents per minute of use.

Embedded in that 17 cents is about 10½ cents that is to cover the cost of the nontraffic sensitive plant that we have talked about or the way I would like to describe it, is the subsidy to local service, and that amounts to about 62 percent of the total charge that a carrier must pay. That is a high percentage, but it would have been higher without the $6 end-user charge. I don't know how much higher that would have been, but it would have been higher than 62 percent. That access charge plan put up to $6 per line on multiline businesses, it turned out to be $4.89 in Tennessee because Tennessee is a fairly efficient cost company and in the figures they didn't have to put on the allowable $6.

The FCC plans provides for a further shift of that subsidy to single line businesses and residential customers of $2 in mid-1985 and going up perhaps to a maximum of $4 by 1990. The BellSouth Cos. support this plan as an important step toward the cost-based pricing that we have been talking about here today and toward the rational and economically sound pricing of both local and long-distance services. Without this step, the critical problem of exchange carriers to local customer bypass will remain a real danger to all local exchange companies.

The term "bypass" is a much overworked word. We have been hearing bypass for a long time and it is a pretty good umbrella, it covers everything. I like to describe it as a customer alternative or a customer together with an interexchange carrier alternative to the local exchange network. Most of the studies and customer surveys prior to the middle of 1984 concentrated on large business customers who for the most part find it advantageous to construct a communications system that bypasses or goes around the local exchange company. These are the situations we are most familiar with. This is the technology part of bypass that Congressman Wyden referred to earlier today. This is the thing that most of the studies that were conducted prior to this year dealt with because those were the things that we were experiencing.

A more serious problem from our standpoint is the customer together with the interexchange carrier alternative to the local switched network. These interexchange carriers are in a competitive long-distance business today and have no incentive to continue what they consider to be a non-cost-related 62 percent subsidy payment. If there were no competition in allowing access to these local exchange networks, then neither the customers nor the interexchange carriers could avoid paying that subsidy.

There are alternatives, though, and large customers or long-distance carriers who can save money by choosing an alternative means of access are likely to do so.

We filed a bypass study with the FCC on September 11, 1984, and supplemented it on October 5, and that study showed that approximately 20 percent of BellSouth's revenue stream is susceptible to a bypass situation. The potential in Tennessee is probably more serious than the other States because seven or eight of the largest business users of long-distance services in all of BellSouth, are located in Tennessee.

These bypass alternatives and the fact that we are now beginning to see them exercised, fully justifies the FCC-stated intention of implementing a shift of those long-distance subsidies to local service in the form of a flat increase in local service rates. While this plan still leaves some subsidy in the access charges that the carriers are going to pay, it does represent a crucial first step and sends what we think is a strong signal to the industry, to the business users and to the interexchange carriers, and hopefully that will certainly influence their decisions when they entertain bypass situations.

It, of course, impacts the company where the bypass is occurring, but it also strongly and directly affects companies such as rural telephone companies because the way these subsidies are shared is that they go to a national pool from the local exchange company who collects them from the carrier and then it is shared back to the other people, and if those revenues are bypassed, then that subsidy is also gone and it is no longer there to be shared among the companies, so it is an important thing.

It is in the testimony and so I won't go too far into it but we don't think that the end-user charges or customer line charge increases that are being proposed will significantly affect the total telephone bill for small business users. The figures that we used are in the statement.

In Tennessee, it is a couple of bucks, $2.34 was what happened to the business users, and that is $48 a year or $50 or $55 a year, and that is an increase to them and we recognize that, but the implementation of the $2 on residents and $1 on businesses, take that back the other way, for small businesses with lines more than one.

Although the subject of this hearing is telephone service for small businesses, I want you to understand that the BellSouth Cos. realize that for some customers these changes in pricing structures will make basic telephone service a large hardship for them to pay and we are working with the public service commissions and the regulatory authorities to do something that we can help these economically disadvantaged people keep their telephone service.

This group may well be the target for special assistance to ensure that they continue to keep it, but one thing that we feel pretty strongly, in the work to find a solution to that problem, we ought not to confuse the issue of the fact that some customers, when faced with a price increase, will choose to leave the network because they simply don't place the value of that telephone service to them that high, even though they may well afford to pay for it.

In my opinion, the value of that telephone service is way underpriced in the first place and I don't think many of them will take that option, but should they do that, we ought not consider them as the same problem when people leave who really are economically disadvantaged.

Thank you very much.

[Mr. Wolfe's prepared statement follows:]

PREPARED STATEMENT OF ROBERT M. WOLFE, DIRECTOR OF SPECIAL PROJECTS, BELLSOUTH CORP., SOUTH CENTRAL BELL TELEPHONE CO., AND SOUTHERN BELL TELEPHONE & TELEGRAPH CO.

Over the last two and a half years, the divestiture of the Bell Operating Companies along with the FCC's access charge orders and extensive discussions and debate in state and national regulatory and legislative forums have drawn attention to the telecommunications business in an unprecedented manner. This hearing alone demonstrates that interest and I am pleased to be allowed to present my thoughts on these important issues.

My name is Bob Wolfe, and I am Director - Special Projects for BellSouth Corporation. I am located at 675 West Peachtree Street in Atlanta, Georgia, and I am here on behalf of BellSouth and its two operating telephone subsidiaries, South Central Bell Telephone Company and Southern Bell Telephone and Telegraph Company. In this statement, I will discuss two interwoven important elements in the future of our telephone companies and telephone customers - access charges and bypass of the local switched telephone network.

In our pre-divestiture history - indeed for decades - long distance business has provided revenues to the industry that have greatly exceeded the cost of providing that service. These "profits" have been used to allow local service revenues to be much lower than the costs of providing that service, that is, the costs that the telephone companies incur simply because a local customer is connected to the local telephone network whether or not that customer ever made a long distance call. Before divestiture hundreds and hundreds of telephone companies were involved in providing local service and long distance or access to long distance services. As the Bell System was the dominant supplier in both cases, it took the lead in overall telephone network design and in administration of the complex revenue sharing mechanisms.

The Bell System no longer exists. For the most part, the industry is now split into companies that provide local service and companies that provide long distance services. The United States Telephone Association (USTA) and the National Exchange Carriers Association (NECA) are doing a creditable job with the local exchange companies but the strong coordination role of the overall telecommunications industry previously assumed by the Bell System no longer does or can exist. The business relationship between the local exchange companies and the long distance or Inter-exchange Companies (IECs) is cautiously evolving and can be presently best described as a customer/competitor relationship.

The business method of accommodating long distance calls to the local exchange networks is accomplished by means of access charges - both switched and dedicated, or special. This is by no means a new concept. Inter-city competition between long distance service providers has been in existence for years and was the subject of the FCC's investigation into the long distance market structure, which it began in 1978.* The result of that docket was the FCC's access charge order, which is the plan under which all IECs compensate the local exchange companies for access to the local network.

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* See Supplemental Notice of Inquiry and Proposed Rulemaking, CC Docket No. 78-72, 73 F.C.C. 2d 222, 230-31 (1979); Notice of Inquiry and Proposed Rulemaking, CC Docket No. 78-72, 67 F.C.C. 2d 757, 760 (1978).

This access charge concept is also the medium in which the continuation of long distance subsidies to local service is continued. Under the existing interstate access tariff feature where all IECs are equally connected to the local switched exchange network, the total access charge to the IECs per minute of use of that connection is about 17 cents. Of this, about 11.5 cents or 62 percent is used to cover the costs of the local loop and can be referred to as the local service subsidy. While that is a high percentage, it would be even higher except that the access charge tariff placed in effect May 25, 1984, included a shift from the IECs of part of that subsidy by increasing the monthly cost of multi-line business customers local service bill by up to $6 per line ($4.89 in Tennessee). The FCC's plan provides for a further shift of that subsidy by adding $2 per month to the local service bill of one-line business and residence customers in mid 1985 and increasing that to a maximum of $4 by 1990. The BellSouth Companies support this plan as an important first step toward the rational and economically sound pricing of local and long distance services. Without this step, the critical problem of IEC-to-local customer bypass will remain a very real danger to all local exchange companies.

The term "bypass" is a much overworked phrase and could perhaps better be described as a customer alternative or a customer - IEC alternative to the local exchange network. Most of the studies and customer surveys prior to the middle of 1984 concentrated on large business customers who had found it advantageous to construct their own local networks and indeed sometimes to extend their networks to other cities. Those studies have shown that in many of the cases the customer makes an economic decision based on his need for a communications facility and a comparison of price quotes from several vendors including the local exchange companies. In other cases, customers make what we may call non-economic decisions based on their need for special kinds of services not easily provided by local exchange companies or on the customer's perception that the local company is not responsive to their overall communications needs. A study made in mid 1984 by McKinsey and Company for BellSouth revealed that as much as 20 percent of the large business customers they interviewed had chosen an alternative to the local switched network based on non-economic factors. By an informal survey, we have documented the existence of more than 76 major multi-point bypass systems operating in the BellSouth region. We are aware of many more, but have not yet obtained enough information about them to be more specific. Of the 76, all are operated by large businesses that are heavy users of telecommunications services. Included are 58 private microwave networks, three optical fiber networks and six satellite networks.

A more serious problem by far is the customer - IEC alternative to the local exchange switched network. The IECs are in a very competitive long distance business and have no incentive to continue a non-cost related 62 percent local service subsidy payment in their cost of accessing local networks. If there were no competition in the market for local exchange access, IECs and customers would have no alternative to continuing this subsidy. But alternatives do exist, and customers or long distance carriers who can save money by choosing an alternative means of access are likely to do so.

One alternative to the switched access charge is found in the local companies' own tariffs under the special access section. Special access is offered at a flat-rate charge as opposed to a minutes-of-use charge, and therefore is not nearly as heavily burdened with the local service subsidy as is in switched access charges. Special access can be appropriately priced on a flat-rate basis because it utilizes a dedicated facility and involves no local switching. Therefore, the cost of providing special access does not increase with usage and IECs will find it economical to use special access as an alternative to switched access whenever a particular customer's usage is heavy enough. BellSouth's operating companies have already received more than 540 orders and inquiries from IECs requesting high-capacity or 24 channel special access facilities from their points-of-presence direct to customer locations or to local exchange wire centers. The potential in Tennessee is particularly serious as eight of the ten largest business users of long distance services in all of South Central Bell are located in Tennessee.

Alternatives also exist for smaller business and residential customers who are fairly high users of long distance services. As an example, resellers purchase bulk-rated long distance services (WATS-like) from an IEC and resell those services to groups of customers at overall rates that are lower than the IEC's rate for individual long distance calls. While these resellers for the most part access the IEC through the local switched network and thereby generate switched access charges for the local exchange company, the same alternative of special access from the reseller location to the IEC's point-of-presence exists with the possible loss of most of the subsidy to local service.

These bypass alternatives to the local exchange switched network are real and are expected to grow rapidly as demonstrated in the BellSouth region by the increasing number of orders for special access. Several recent filings with the FCC demonstrate beyond doubt that actions should be taken immediately to reduce the incentives for bypass alternatives which are inherent in the existing access price structure. Bell Communications Research, Inc. filed a bypass study with the FCC on September 10, 1984, showing the national potential for bypass based on data from the divested Bell Operating Companies. BellSouth filed its own study on September 11, 1985, and supplemented it on October 5, 1984. The BellSouth study showed that approximately $1.9 billion or 20 percent of BellSouth's revenues are vulnerable to the bypass alternatives. USTA filed a study on October 5, 1984, using data from the whole telephone industry. The conclusions reached in all the filings are that the subsidy levels in the switched access charges are the trigger for customer - IEC bypass alternatives. The conclusions reached by Gerald W. Brock in his recent paper are representative:

> "The current access charges are likely to produce much less than the current revenue requirements if those access charges are continued long enough to allow customers and inter-exchange carriers to take advantage of bypass opportunities."[1]

The author also observes that under pessimistic but plausible assumptions concerning elasticity of demand for access service:

> "No level of usage based access charges meets the revenue requirement because increases in access charges induce enough additional bypass and enough reductions in total demand to produce practically no net gain in revenue."[2]

These bypass alternative incentives fully justify the FCC's stated intention of implementing a shift of the long distance subsidies to local service in the form of a flat increase in local service rates, and BellSouth strongly supports that plan. While this plan still leaves some of the subsidy in the switched access charge, it represents a crucial first step and sends a strong signal to IEC - customer base that may influence their bypass alternative studies and decisions. This shift is of importance to the whole local exchange telephone industry. It of course impacts the local exchange company where the bypass occurs but it strongly indirectly affects all others. Companies with high cost local service draw part of their subsidy from national pools. Where that pool is diminished by bypass of subsidy payments in switched access charges, all users of the pool are affected.

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[1] Gerald W. Brock, Bypass of the Local Exchange: A Quantative Assessment, OPP Working Paper Series No. 12, September 1984, p. 61.

[2] Id., p. 7.

Small businesses certainly have no reason to expect to be harmed by these changes. Implementation of the remaining parts of the FCC's access charge plan (i.e., the capped $4 shift of subsidy to residential and single-line business customers) will further reduce access charges paid by long distance carriers by almost 30 percent. Just as the implementation of the $6 per line charge for multi-line business customers on May 25, 1984, was accompanied by a 6.1 percent reduction in AT&T's interstate long distance rates, the implementation of the $4 subscriber charge for the remaining customers is expected to be reflected by a further reduction in long distance rates.

Exhibit A dramatically demonstrates that the implementation of the $6 per line charge on multi-line business customers had a practically negligible effect on business customers with from two to ten access lines. When the 6.1 percent reduction in toll rates was applied, in Tennessee as an example, the increase in total billings for exchange and toll service increased only an average of $2.34 or 1.5%. A market profile of small business customers in Tennessee shows that the total telephone bill amounts to only about 1.0 percent of total operating expenses. The small increase of $2.34 per month does nothing to that ratio. Only when a small business customer has a very large long distance usage will the 1.0 percent ratio of total operating expenses be exceeded, and in that case, the reduction in toll rates produced a reduction in his total bill.

For one line businesses, the May 25, 1984, $6 per line charge did not apply and therefore for businesses with any interstate toll usage at all, the net change was a reduction in the total bill. Columns C and D of Exhibit A show the net effect of the proposed implementation of the capped $4.00 subsidy shift charge on single-line business and residential customers and a corresponding interstate toll reduction. In Tennessee, as an example, the net effect would be a decrease in the average total telephone bill for small business customers in comparison to their bills prior to May 25, 1984, of $3.42. Furthermore, the implementation of the $4.00 charge would result in an average net reduction of $4.96 for business customers with ten or less lines when compared to their current bills. Small business customers will, therefore, on the average, benefit from the FCC's access charge plan.

If small businesses received no benefit at all from a reduction in toll rates, the net after-tax increase in their operating expenses due to end-user charges would be very small. It would, in fact, not be much more than the additional cost imposed on small business customers by the three percent federal excise tax that the Congress has imposed upon telephone service. Moreover, it is very likely to be substantially less than the increased cost imposed upon many small businesses by the last increase in the minimum wage (1981, + .25¢/hr., $10/wk). That action increased the labor cost of many small businesses by at least $520 per year for each full-time employee. By comparison, a maximum annual increase of $72 per exchange access line pales to insignificance. Similar comparisons could be made with other operating expenses, such as the recent increases in the Social Security taxes paid by employers, including many small businesses. Moreover, the same marketing profile of one-line businesses in Tennessee also shows that the total telephone bill amounts to less than 1.0 percent of their total operating expenses.

In addition, small business customers benefit indirectly from the economically efficient pricing of telephone service. A viable telephone system is an essential part of a healthy economy. If uneconomic pricing of exchange access is allowed to continue, the bypass that such pricing prompts may very well weaken local telephone companies financially. A financially troubled telephone company will not be able to maintain the level of maintenance and new construction necessary to provide even adequate telephone service, much less the high quality service that business customers require. Deterioration of the local telephone system can have the same kinds of adverse effects on a local economy as deterioration of other parts of the economic infrastructure, such as highways, roads, sewer and water systems, etc.

Although the subject of this hearing is telephone service for small businesses, I do want you to understand that the BellSouth Companies realize that for some truly needy residential customers the proposed changes in pricing structure may make basic telephone service less affordable. South Central Bell and Southern Bell are working with the public utility commissions in the states that they serve to deal with the problems that the economically disadvantaged may face in obtaining telephone service. This group may well be the target for special assistance to insure the availability of telephone service, and we pledge our efforts to work with state regulators and legislators to that end. But, in our work to find a solution to the problem of affordability for the truly needy, we should not confuse that issue with the fact that as prices rise some customers may simply choose to leave the network because they believe the price of the service exceeds the value they receive from it. It is my view, however, that this value is significantly underpriced and that very few will exercise this option. However few, that group will do so out of choice, not economic necessity, and should not be the target for special assistance.

EXHIBIT A

IMPACT OF SUBSCRIBER LINE CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 TO 10 LINES

	May 25, 1984 Implementation Of Subscriber Line Charge for Multiline Business Customers and 6.1% Reduction of Interstate Toll		Proposed Implementation of $4 Subscriber Line Charge for Single Line Business and Projected 21.3% Reduction* of Interstate Toll	
	A Net Change	B % Change	C Net Change	D % Change
AL	$3.27	2.1	$(1.77)	(1.1)
KY	2.77	1.9	(1.17)	(0.8)
LA	4.70	3.3	.87	0.6
MS	2.56	1.7	(1.88)	(1.2)
TN	2.34	1.5	(3.42)	(2.2)
FL	4.35	3.4	(1.11)	(0.9)
GA	4.19	2.8	(1.51)	(1.0)
NC	2.34	1.7	(2.08)	(1.5)
SC	2.17	1.5	(2.31)	(1.6)

*Includes previously authorized 6.1% interstate toll reduction.

Impact of subscriber line charges as indicated on this page do not include other telecommunications charges for business customers (custom calling services, customer premises equipment, directory advertising, etc.).

Mr. WYDEN. Mr. Cooper.

Mr. JIM COOPER. Thank you, Mr. Chairman.

I appreciate that excellent testimony. I would like to begin by asking a few questions of Mr. Wolfe. I want you to know that having just met you, I like you very much as an individual. I think that you and your company are in a tough position on this and on the whole, BellSouth seems to be quite a leader and an excellent operating company. I do worry—and I have expressed this worry already to many of the folks in your company and they have been kind enough to listen to my complaints—that in all your operations that at least rural Tennessee might be ignored in some of your calculations. It worries me in particular in a hearing like this when you can say in your written testimony statements such as this, "Small business customers will therefore, on average, benefit from the FCC's access charge plan."

Mr. Sloan is the head of the NFIB, the largest group in the United States representing small businesses, and he is against the access charge plan. Are you telling Mr. Sloan that he doesn't know his business or that he is not representing his constituents?

Mr. WOLFE. Not at all. In the BellSouth Co., we have an awful lot of customers and all the statements within this testimony are based on the average customers as you might well see. Any time you strike an average, you have got both the large and the small and what Mr. Sloan spoke to was the small of the small. We took average toll bills for small business customers from 2 to 10 lines in the BellSouth territory and plowed those things through and coupled to those the $6 per line charge that was placed on them on May 25 and coupled to that a 6.1 percent reduction in toll rates and came to the conclusion that small business customers, if we do class them as 2 to 10, were negligibly affected by that, average bill, toll bill.

Of course, there are going to be cases that don't fit that scheme and if I were head of an association of small businesses, I probably would choose to look for the businesses where I could prove the point that I wanted to make. We didn't really do that because we took the average of all our small businesses. I hope that is responsive.

Mr. JIM COOPER. As I understand it, though, your corporation is owned by shareholders.

Mr. WOLFE. That is correct.

Mr. JIM COOPER. And your duty as a corporate officer is to maximize return for your shareholders. Mr. Sloan's duty is to represent his members and therefore I, as an elected official am more likely to believe his testimony than to believe yours. I regret that outcome, but that is the situation you force me to be in.

Folks like Mr. Allen, and granted his company is a very small part of an empire such as the one that BellSouth might have, but Mr. Allen has conducted a study that indicates that randomly selected 20 of 22 of his people are hurt by access charges; 20 of 22. That means 95 percent of the folks affected are hurt and yet you can testify that on average they are benefited.

I worry, as I say, that your company might not have the time or the resources to focus at least on the rural areas of Tennessee and that your company doesn't really care what happens in the most rural areas because in many parts of Tennessee, your company does not operate, an independent phone company operates, and whatever the reason for that was originally, it tends to diminish, I think, your concern for the day-to-day operating conditions in rural Tennessee, and our task is to try to figure out the best national solution.

But conditions in a State like Tennessee are key in determining that, and when we face conflicting testimony from respected people on both sides, if I have to judge I will come down on the side of the guy whose only responsibility is to represent his people, not to maximize profit for shareholders in Atlanta or Birmingham or wherever else the shareholders might be located, as I understand it anywhere in the United States, perhaps abroad.

I understand your position. I think you do an excellent job in that position, but when it comes to fashioning national policy, we have a broader task. From what I understand, it is very difficult for your company to fit into its computer models my rural counties.

As Mr. Allen and I said earlier, 13 or 15 percent of our people don't have phone service. If you call that universal, that doesn't quite meet my definition of the word.

I would like to congratulate Mr. Allen on having compiled his second study on this. We were amazed that the Chairman of the FCC hadn't conducted a study. Mr. Allen led the Nation in turning in results of the impact on small business users. I think that is a tremendous job, especially considering the small nature of the company that he comes from. That is very valuable information and I appreciate that. I think it should be stressed that Mr. Allen pointed out that 42 percent of your customers paid $5 or less in long distance calls a month, and that is both interstate and intrastate.

Fifteen percent made no long-distance calls whatsoever and yet this access charge is levied on everybody whether they make a long distance call or not and that to me is part of the inherent unfairness of this thing. It is a tax whether you use the service or not and if 15 percent or 40 percent never or bearly ever use it, how is that fair? I can see whether any company would want the additional revenue, but what is to you, I believe, in your phrase, "a couple of bucks," is to a poor person or an elderly person an awful lot of money. Maybe to BellSouth it is a couple of bucks, but to our folks who bearly are getting by right now, a couple of bucks is a lot of money, and I would hate for them to get charged for something that they are not using and yet the charge would be levied on them anyway.

Your companies seem to be unified in being in favor of this charge. I don't blame you, you are entitled to seek revenue wherever you can get it, but our job is to do what is fair for the people and if they are not using a service, why should they have to pay for it?

Mr. WOLFE. I would like to respond.

We are publicly owned, but we really do have a long tradition of great telephone service and great responsiveness to the users of the telephone company and we really do think of them as customers and not as fuel for our financial machine that cranks out to the shareholders. We have a long tradition of being other than that. I had to say that.

The second thing, the long-distance carriers, and for sure you know I can't speak for them, they pay subsidy to local service. They pay for the nontraffic sensitive part of what they connect to, and that is the local loop, and that is the long rural loop and that is the short loop in the dense metropolitan areas and they pay for that because they connect to it and get revenue from it. I am not talking about from my view, but if I were them and I heard that someone didn't place long-distance calls and generate revenue for me, I don't know whether I would feel like paying that subsidy to them or not.

I understand why we did it; we were the Bell System and we handled this thing. I understand the concepts, but we are not there anymore and I am trying to look at what we must do in our new role. I just suggest this concept as maybe one response to what you mentioned about the lack of long-distance calls on the loop.

Mr. **Jim Cooper**. Another area I would like to explore is the area of bypass. I have talked with several of your colleagues in BellSouth about this. It is remarkable to me how little effort has been made on the part of your company to control the bypass problem. The attitude of the company seems to be if they are going to bypass, there is nothing we can do about it and we have lost that revenue forever. As far as I know, you are the only business willing to let customers flee the system without worrying about how to get hold of those customers. Maybe recently you have come up with a way to include those folks within the umbrella, but the impression I have had in the past is if they bypass the system, we have lost them forever. Surely your company is thinking of a way of minimizing the bypass problem.

I realize that bypass is something that many companies do. I understand that AT&T itself and BellSouth have a bypass system. It is a curious situation when you hold this up as a great threat, a threat used equivalent to blackmail to get rural customers to pay a charge for something they don't use. It is a remarkable situation to me, looking at it from a business standpoint.

Are you aware of any effort of BellSouth to study what to use to corral the bypassers and get them back into the regulatory network?

Mr. **Wolfe**. Two general categories, one is technology, one that we spend an awful lot of time on. In almost every bypass situation, we make a proposal based on the rates that we are allowed under our tariff and indeed doing some incremental pricing when allowed to present a competitive response to this technology bypass that I have discussed and the customers make two kinds of decisions, I will call them economic and noneconomic. They are practically always economic for him. Most of the time he really wouldn't do it were it not economic for him. But the second reason that he sometimes does it is that he perceives that the services that we provide are not tailored to his unique need and as these are large business customers, they want more control of their communications and quite often they will make that kind of decision to do it.

As far as our lack of response to it, I really don't know of a single competitive situation where we have not been there fighting to try to keep the business. It is a fact that once they leave and once they establish a system of their own, they don't come back very easily, and that is a fact of life, but that is not the real bypass problem that makes me lay awake nights nowadays. The real bypass problem that gets to me is the fact that the cost of access to our local exchange network is structured in such a way that it provides a terrific incentive to the interexchange carriers and customers of all kinds, to do something that bypasses that switched telephone network and thereby avoid paying that switch access charge in which is included the continued subsidy that we have all said goes to the rural customers, the local service customers.

We have a tremendous amount of effort underway. The studies that have been made by a lot of people, including one that was presented to one of your committees by the ICA, it was a very intelligent study for what it was. It was a fairly narrow one. They asked them some specific questions—by the way, I sat on the panel with Mr. Meyer in New York a couple of months ago so we had a long discussion about it. The answers that were given were exactly as I have described to you. Sometimes it is a little more costly and we make the decision to go for other reasons other than pure cost and when it is less cost then we sometimes make that decision, but we think we have a tremendous effort to try to avoid those bypass issues and we sure are working on the big one right now.

Mr. JIM COOPER. I thank you for your testimony.

Mr. WYDEN. Thank you, Mr. Cooper.

Mr. Allen, you have 15 percent of your people without phones, I gather, in your region, and you made very clear both in your statement and in questions to Mr. Cooper that access charges are hurting your people more than helping. When are you going to start losing some of the people you now have if these policies continue?

Mr. ALLEN. If they continue, I think it will be more evident that we will lose them. The people that have multiline phones now haven't got those, to make interstate calls, they have those lines to make local calls; they have those lines for service-oriented support of their business, in their calling locality and, they have got to have them. It is a tool in their business. They must have local calling for fertilizer, gasoline, and it is not for interstate calling.

Mr. WYDEN. If increases are 15 or 20 percent, is it possible to calculate at what point you are going to start losing them? We know already in Tennessee a lot of people don't have telephone service. What I am concerned about is on top of that problem, are we going to start losing some of the people who now have service?

Mr. ALLEN. I definitely think we will, but I haven't got the supportive evidence. I believe when you hit that 20 percent then you are going to start losing some phone customers, and I don't want to sound like that this problem is related to rural areas. It is related to urban areas the same. It is not poor and rich, it is access charges versus low toll volume, no matter where the low toll volume is, if it is in a metropolitan area or in my rural area.

Mr. WYDEN. You are a wise man and I commend you for having done your studies and very much appreciate that you would be willing, in Tennessee where it is hard to get this kind of information and technical counsel. I commend you for going forward and doing this very complicated research.

Mr. Hicks, some of the things we are looking at are ways to make life easier for some of the small telephone companies. For example, we have just heard these horror stories about paperwork and excessive bureaucratic requirements which come about as a result of changes. One of the things I think is a sure bet for the task force recommendations is for the FCC to require that regulatory flexibility be applied to small businesses so they could get out from under some of the paperwork load that seems to have increased. Are there any other suggestions you have for the task force to make your life easier?

Mr. HICKS. One of the toughest things in my job is just keeping up with what I can charge and do in a given situation. People call and say I just got a phone call, our largest customer is being bypassed. First I have to check the national exchange carrier tariff. If I am not covered there, check the tariffs with AT&T, find out what I can in order to be flexible. An example, Concord Telephone Co., one of the ones we manage, bill on the average of around $250,000 a month in toll revenue. Our largest customers this month just bypassed and the sum total of their two bills was $30,000. That is a large chunk of dough each month out of the $250,000 you are billing, and our people say, "What can I do, we have just lost the biggest customer." It's tough to go to the customer and say, "Well, service has been good, stick with us just because we are losing 30 percent on your phone." If I had regulatory flexibility where I could say maybe the charges we have, maybe there is a way to work out some kind of a deal where you are a good customer, I can kick you back some to keep you on my network so I can get some subsidy from you to help the rest of my customers.

Mr. WYDEN. Mr. Wolfe, you are in favor of the FCC access plan at BellSouth?

Mr. WOLFE. Yes, sir.

Mr. WYDEN. Are you also in favor of measured service on the local level?

Mr. WOLFE. We have measured service in all of our States in South Central Bell, and I think in two, maybe three of the ones in Southern Bell, proposals are there to implement measured service. We have long thought that an option ought to be there for people to be billed on a usage-type basis, and we have long thought that that might even provide a low-cost floor that would allow telephone service to continue as a lot of people have known it before.

We revisit that subject about once a week, and it today is the subject of an intense study in South Central Bell. We have set up a few people to look at that again to explore how it fits in our new environment and to decide if it really fits the things we thought it would fit in the past. So that is a long way of saying yes and maybe no.

Mr. WYDEN. Let me ask what is one of the most important questions for me in the whole debate and I think, until we get a handle on it, it will be hard to make good recommendations about how we assess costs and determine who ought to pay. As I understand it, a company in your position, one of the Bell operating companies, has supported the FCC's access charge plan because costs are fixed and that is a fundamental reason that you have been for it, we have to have it, costs are fixed.

Then they come back and in other hearings tell me they are for optional measured service proposals on a local level because costs aren't fixed and it ought to be based on usage, so I always walk away from these hearings kind of skeptical because it can't be both ways. If you could somehow enlighten me on this point—I want to tell you why I think it is so important—the members of this task force on a bipartisan basis want to do the fair thing in terms of allocating costs. We know that we have got to get the revenue to run a quality communications system in this country, but we are having a great deal of difficulty getting a good handle on costs, and particularly reconciling what I have just been through with you, which makes someone like myself kind of wonder and say, How can it be both ways? And if you could offer us some explanation in this area, that would be helpful.

Mr. **Wolfe**. Let's try. I walk away from some of these meetings scratching my head too, and I think I will from this one. They are both fixed and variable costs. A local loop that connects a customer from his home or his small business into local is a fixed cost. When he switches through his local telephone office and when he chooses a carrier and either goes locally or long distance, some of those costs vary. Over the time the investments to support those calls, the costs can be changed and therefore those costs vary. But I don't know of any proposal for local measured service that does not include as one component a fixed-cost part and then a usage part on top of that.

But the point is there are both fixed and variable costs. The largest fixed cost which we in the new environment have is tied up in the provision of local service to telephone customers, and the largest variable cost we have is that which is tied up in the switching machines and connecting networks to accommodate traffic-sensitive or variable overtime costs.

I don't know whether that helped or not.

Mr. **Wyden**. It is better than most of what I have gotten, frankly. It is moving toward being coherent. What I think would be helpful—and I am going to ask some of the other Bell operating companies too—could you break down for us what are your non-traffic-sensitive costs and your traffic-sensitive costs?

Mr. **Wolfe**. Yes, I can.

Mr. **Wyden**. We will leave the record open on that point and if you would do that, that would be quite a service.

Mr. **Wolfe**. How would you like that? I have got it memorized if you would like to know. Let's do a paper for you and give it to you.

Mr. **Wyden**. That would be helpful because that is the key to beginning to wade through this and assigning costs in any kind of fair way.

The second thing that I would find very helpful, you all have attached to your prepared statements in exhibit A, which talks about essentially how phone rates for small businesses aren't going up a whole lot, in your analysis, and again because that is so contrary to what Mr. Sloan has said, if you all could furnish us some additional background material as to how you got to that determination that would be helpful.

Mr. **Wolfe**. We would be happy to, and Congressman Cooper, we would like to work with you in your specific district, if you can find the time, to see if we could personalize some of this data out of that large computer model to people that you are talking about.

Mr. **Cooper**. I spoke with executives in your company a month or so ago about that specific thing. They were kind enough to visit me in Washington and I hope the data will be forthcoming. It worries me so much in so many statements, I believe you said that you had measured service in most of your States.

To me, phrasing like that is a little bit misleading. Sure, you have it in most of your States, but a little dab in Nashville or Memphis to me doesn't mean you have it in most of your States. Within a few miles of Davidson County you don't have a pretense of measured service. As far as I know, you don't have a plan in a specific number of years to provide measured service.

You hope to, and that is nice, but the folks in my area, they hear about measured service and that is a dream. It is the same dream that is reinforced every time they make a long-distance call and the nice operator says, "Thank you for using AT&T." That is like saying, "Thank you for getting wet while it is raining." The operator is paid money to thank them for using them when they have no alternative.

So some of the promises might apply in downtown Nashville, so I almost resent it when you say you have measured service in Tennessee, because that kind of implies throughout Tennessee, and that is not true. You have it in a small minority of a geographical area that might serve a considerable number of people and that is fine, but I serve a rural area. Most Congressmen in Tennessee also serve rural areas.

Mr. **Wolfe**. I used that phrase very carefully because it is in Tennessee and not all over Tennessee. In one of your previous hearings, you heard from some people who, I believe, are pretty violently opposed to measured service, and one of their logic points was it costs you more to implement it than to do your service without it. As bad as it is, the fact is that the switching machines that are in service in the territory that you described to me—and it is rural and it is in slow-growing areas where growth doesn't force you to modernize that switching machine, and the replacement of that with a modern type machine that makes measured service easy is not a good thing for us today.

While we can implement measured service in that kind of machine, it costs us—I don't remember the number, but it is more than a couple of bucks—I shouldn't have used that. It costs a lot of bucks to equip those kinds of machines to do the measured service job. So it is not really that we have not felt it is in the best interest of the customers and us to do measured service universally, but to phase it in as we are forced to modernize the machines and bring in the good capability.

Mr. **Cooper**. You are doing an excellent job of serving your shareholders and that means being efficient and not spending a penny more than you have to in an area where you are not required to do it, and that to me means my district and all the other rural areas of Tennessee. You are not going to spend a dime more than you have to because that is good business and I don't blame you. But it is counter to my people having affordable phone service.

To get to the point Mr. Allen dealt with in trying to estimate the elasticity when a phone bill goes up and people have to drop off from the phone system, the FCC has been brazen enough to tell us that you could double people's phone bills and no more than 1 percent of the people would drop off.

That is crazy, as it applies to Tennessee. Look how many can't afford it now. How many more won't be able to afford it in the future? Congressman Gore estimated 10 percent of the people would no longer be able to afford phone service. In my district that is at least another couple of thousand people who would have to drop off.

The public service commission has estimated, I think, 20 percent might not be able to afford it if access charges are fully implemented. So the national calculations—the statements whereby the FCC or a large company—these calculations sound good and reassuring, but they are selling us a bill of goods that in my opinion my people shouldn't accept. They shouldn't believe those vague promises of future returns when they are asked to pay now an access charge of a couple of bucks or a lot of bucks, however you want to phrase it.

Mr. WYDEN. One other question for you, Mr. Wolfe. You said something at the end about how we should be concerned about poor people for using phones, but we shouldn't be concerned about people who drop off the phone system for reasons other than price, and what I took out of this is that somehow there is a significant number of people in your view who just make a determination that they would rather have a stereo or a new fishing rod rather than a phone, so they gave up the phone for other reasons.

I am in strong disagreement because I don't find anybody giving up phones in the 1980's for any other reason than price, period, because the phone is a basic kind of tool. Correct me or fill me in on what you meant.

Mr. WOLFE. Let me do that. I have a term that I love to use called market basket, and I hate to use averages again, because those are dangerous things to use. But nevertheless local phone service over the last 20 years has caused people to pay on average less than half a percent of their household income, less than half a percent of their household income.

In the 20 years from 1970 to 1984, that percentage of their household income has gone down rather than up, which says that we have done a fabulous job in performing in a way better than the national economy does. So I call that market basket, and I say that if it is only half a percent, and if we have to raise that for whatever reason, and if it doesn't—and if it is not valuable enough to them to fit in the proper place in the market basket, then maybe we ought not to say we are going to keep phone service for everybody whether they can pay for it or not.

I don't like to use this term either, but maybe we could think telephone stamps, but we ought not give telephone stamps to everybody just because the telephone stamps exist. We ought to give them to the people who need them. We may continue to disagree, but——

Mr. WYDEN. We surely do on the issue of phone stamps.

Mr. WOLFE. I disagree too.

Mr. WYDEN. I am pleased that you have taken back what you said earlier.

Mr. WOLFE. It was a concept.

Mr. WYDEN. Then I want it understood that if we have phone stamps in this country we are on our way to a two-class society as far as telephone communications.

Mr. WOLFE. Yes, sir, let's not.

Mr. WYDEN. I am very pleased that that was corrected, but I want to come back to this other point that I asked earlier. Do you think a significant number of people leave the phone system for reasons other than price, because all I ever hear from my constituents is how desperately they need a phone and the only reason they give it up is because they don't have enough dollars in their pocket. You are talking about market baskets that would indicate a significant number of people give up their phones for reasons other than price.

Mr. WOLFE. I am sorry, I didn't insinuate that at all. I said if they weren't willing to pay the price with it, in my opinion terribly underpriced as it is for the value that it presents to everybody, and they could afford to pay that price, maybe we ought not to worry about them.

Mr. WYDEN. But no such people exist.

Mr. WOLFE. You said if they give it up then they can't afford to pay for it, and that is different from what I said.

Mr. WYDEN. I am saying that the only reason I hear from people is that they give up the phone because they can't afford it.

Mr. WOLFE. That is different. That is not what I said.

Mr. WYDEN. I am pleased to hear that, because somehow the theory that I have heard articulated here——

Mr. WOLFE. I thought what I said is if they really can't afford to pay it, if they are financially disadvantaged, we ought to help them, those who are not financially disadvantaged.

Mr. WYDEN. There are no such people.

The other point is I think that this work that you all are doing in terms of trying to simplify the bill is very helpful and I understood that Mr. Mac Hunt was working on it. Why don't we say that Mr. Hall and I will be in contact with Mr. Hunt because that could be very helpful to the task force as we try to go through some ideas for simplification.

Gentlemen, thank you.

Our next panel is Jerry Cooper, president, Cooper Manufacturing Co., Smartt, TN; Bill Nourse, Brookmeade Hardware & Supply Co., Nashville, TN; Ken Carver, vice president of Southeastern Telecom, Nashville, TN; and Ronald Clark, vice president, TWTA, Tampa, FL.

TESTIMONY OF JERRY W. COOPER, PRESIDENT, COOPER MANUFACTURING CO.

Mr. JERRY COOPER. There is no relation between Congressman Cooper and myself.

Mr. COOPER. I would be happy to claim kin.

Mr. JERRY COOPER. To summarize my remarks, it is a privilege to be here, and the main reason I am here is not because last year I had the good fortune to be selected Small Businessman of the Year from the State of Tennessee. I just want to summarize some of the things that were said here today and all this is in written testimony that we will be glad to furnish you.

Basically, what we attempted to do was take a look at our small business there in Smartt Station, TN, a very rural community, and the five counties that I will be representing are five rural counties in middle Tennessee which are in Congressman Cooper's district.

In the testimony I will be glad to provide an analysis of our company's tolls and access charges for the past 5 months beginning in May. The access charges have been in effect. During that period the total access charge for our two lines was $60. The 6.1 percent rate reduction of the $195.62 in interstate cost charges amounted to a savings of $11.87. This difference between the rate reduction cost and the charge to the access, the two lines was $48.13.

For the past 5 months the average cost of the access charge for the two lines was $9.62 more than the two lines cost before the access charge went into effect.

In my opinion this is clearly no barrier for small business. Those of us with multiline systems, with a low volume of interstate calls, are caught in the middle. For large businesses the rate reduction would save millions of dollars. Indeed, the Consumer Federation of America has pointed out, the NFIB has pointed this out, and the unfairness of allowing a similar charge on single-line business phones and the $2 charge on residential customers we feel is also unfair. Those charges would impose a greater hardship on them and greatly endanger their ability to afford telephone service.

Of these people 8.3 percent in our five rural counties are now living on fixed incomes. For the elderly, a telephone is a vital lifeline in case of emergency. Further increases would seriously jeopardize their ability for phone service. I do not believe that anyone in this room is willing to face the responsibility of that.

Finally, I would urge very, very much caution on the part of this committee, and closer examination of whether or not these charges are actually needed and whether the furor caused by the threat of bypass is a real danger. Ideally, long distance costs should be paid by those who make long-distance calls.

I appreciate being here.

Mr. WYDEN. Thank you.

[Mr. Jerry Cooper's prepared statement follows:]

Prepared Statement of Jerry W. Cooper, President, Cooper Manufacturing Co.

Mr. Chairman and members of the Committee on Small Business's Special Task Force on Telephones, it is with great pleasure that I appear here today and welcome you to Tennessee. My name is Jerry Cooper and I come as a concerned small businessman.

I own and operate a hardwood lumber products manufacturing business in rural Warren County, Tennessee. Last year, I had the good fortune to be selected by the U. S. Small Business Administration as their Tennessee Small Businessman of the Year. I was deeply honored by this recognition for my twelve-year struggle to build a business from the ground up.

I also come today as a newly-elected state senator, soon to be representing five predominantly rural middle Tennessee counties containing hundreds of small businesses, many far more profoundly affected by the alarming increases in the cost of telephone service than my own.

Like most successful entrepreneurs, I built my business through long hours, hard work, and a determined effort to reduce the costs of operation. Seemingly insignificant expenses can quickly combine to devour any potential profits if not held in check. Unfortunately, most small businesses now see net increases in the cost of telephone service, a cost that they cannot control.

It is my intention to focus on what I believe to be the most unfair aspect of these increases, that is, the $6.00

PER LINE MONTHLY CHARGE FOR END-LINE ACCESS FOR INTERSTATE CALLS. I DO NOT INTEND TO DWELL ON THE RATIONALE FOR THESE CHARGES, RATHER, I AM HERE TO PROTEST THE RESULTS OF THEM. THE NET EFFECT OF THESE ACCESS CHARGES IS TO PLACE THE BULK OF THE BURDEN OF EXPENSE ON THE BACKS OF SMALL BUSINESSMEN WHO, QUITE OFTEN, MAKE FEW OR NO INTERSTATE CALLS.

IN AN ATTEMPT TO MAKE THESE CHARGES MORE PALATABLE, A RATE REDUCTION OF 6.1 PRECENT WAS GRANTED FOR INTERSTATE TOLL CALLS. HOWEVER, THIS IS OF LITTLE VALUE TO MOST SMALL BUSINESSES WHOSE VOLUME OF INTERSTATE CALLS ARE LOW. FOR THEM, SUCH AN EXCHANGE IS HIGHLY INEQUITABLE.

AS AN EXAMPLE, I HAVE PROVIDED AN ANALYSIS OF MY OWN COMPANY'S TOLL AND ACCESS CHARGES FOR THE FIVE MONTHS, BEGINNING IN MAY, THAT ACCESS CHARGES HAVE BEEN IN EFFECT. DURING, THAT PERIOD, THE TOTAL ACCESS CHARGE FOR MY TWO LINES WAS $60.00. THE 6.1 PERCENT RATE REDUCTION OF THE $195.62 IN INTERSTATE CHARGES AMOUNTED TO $11.87. THE DIFFERENCE BETWEEN THE RATE REDUCTION COST AND THE CHARGE TO ACCESS THE TWO LINES WAS $48.13. FOR THE PAST FIVE MONTHS, THE AVERAGE COST OF THE ACCESS CHARGE FOR THE TWO LINES WAS $9.62 MORE THAN THE TWO LINES WOULD HAVE COST WITHOUT THE ACCESS CHARGE.

GENTLEMEN, THIS IS CLEARLY NO BARGIAN FOR THE SMALL BUSINESSMAN. THOSE OF US WITH MULTI-LINE SYSTEMS BUT A LOW VOLUME OF INTERSTATE CALLS ARE CAUGHT IN THE MIDDLE. FOR LARGE BUSINESSES, WHICH ACCOUNT FOR THE GREATEST LONG DISTANCE CHARGES, THE RATE

REDUCTION WILL SAVE MILLIONS OF DOLLARS. INDEED, THE CONSUMER FEDERATION OF AMERICA HAS POINTED OUT THAT "THE ONE PERCENT OF CORPORATE AMERICA THAT IS RESPONSIBLE FOR 40 PERCENT OF THE NATIONS LONG DISTANCE BUSINESS CHARGES WOULD SAVE OVER $1 BILLION PER YEAR."[1]

THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS HAS STATED THAT

> THIS METHOD OF RAISING REPLACEMENT REVENUE FOR LOCAL TELEPHONE SERVICE HAS RESULTED IN MUCH HIGHER PHONE COSTS FOR SMALL BUSINESSES AND AN INDIRECT TRANSFER OF CAPITAL FROM SMALL BUSINESSES TO AMERICA'S CORPORATE GIANTS.[2]

FURTHERMORE, THIS UNFAIRNESS SHOULD NOT BE COMPOUNDED BY ALLOWING A SIMILAR CHARGE ON SINGLE-LINE BUSINESS PHONES AND THE $2.00 ACCESS CHARGE ON RESIDENTIAL CUSTOMERS. THESE CHARGES WOULD IMPOSE AN EVEN GREATER HARDSHIP ON THEM AND GREATLY ENDANGER THEIR ABILITY TO AFFORD TELEPHONE SERVICE.

INSTEAD, I WOULD URGE CAUTION. CLOSER EXAMINATIONS OF WHETHER OR NOT THESE CHARGES ARE ACTUALLY NEEDED AND WHETHER THE FUROR CREATED BY THE THREAT OF "BYPASS" IS A REAL DANGER ARE IN ORDER. CLEARLY, THE PRESENT ARRANGEMENT IS UNJUST. IDEALLY, LONG DISTANCE COSTS SHOULD BE PAID BY THOSE WHO MAKE LONG DISTANCE CALLS. IN CONCLUSION, I URGE THE MEMBERS OF THIS COMMITTEE TO WORK TOWARD A MORE EVENHANDED SOLOUTION. I THANK YOU.

TOLL AND ACCESS CHARGE ANALYSIS
May - September Billing

Telephone No.	Total Amt. Toll	Intrastate Amt.	Interstate Amt.	6.1% Reduction	Total Access	Cost/Savings
668-4155 4156						
Sept.	$ 210.42	$168.31	$ 42.11	$ 2.56	$ 12.00	$ 9.44 -Cost
Aug.	191.18	175.72	15.46	.94	12.00	11.06 -Cost
July	241.77	208.65	33.12	2.01	12.00	9.99 -Cost
June	114.10	21.28	92.82	5.65	12.00	6.35 -Cost
May	52.79	41.04	11.75	.71	12.00	11.29 -Cost
	$ 810.26	$615.00	$ 195.26	$ 11.87	$ 60.00	$ 48.13

$ 60.00 - Cost of the Access Lines
11.87 - * 6.1% reduction of the toll
$ 48.13 - Difference between the rate reduction cost and the charge to access to the 2 lines

For the past (5) months the cost of the access charge for the 2 lines was $ 9.62 more than the 2 lines would have cost without the access charge. (Per month)

NOTES

[1] Statement of Gene Kimmelman, Legislative Director, Consumer Federation of America: "Repricing the Telephone Network: A Threat to Universal Telephone Service." Special Task Force on Telephones, U.S. House of Representatives Committee on Small Business, September 25, 1984.

[2] Statement of Jim Bernau, Director of Governmental Relations, National Federation of Independent Business. Special Task Force on Telephones, U. S. House of Representatives Committee on Small Business, August 23, 1984.

Mr. **Wyden**. Bill Nourse.

TESTIMONY OF ROSWELL W. (BILL) NOURSE, OWNER, BROOKMEADE HARDWARE & SUPPLY CO.

Mr. **Nourse**. I am Bill Nourse, and I own and operate Brookmeade Hardware & Supply Co. in Nashville. I really appreciate your bringing the House Small Business Committee Task Force on Telephones to Nashville, and thank you especially for inviting me.

Tennesseans have been fortunate over the years in having exceptional representation in Washington. We have also been blessed by distinguished representation on both the House and Senate Small Business Committees. I am happy to say that the present is no exception to this history. Congressman Jim Cooper of Tennessee is a member of your fine committee and our Senator, Jim Sasser, is an outstanding member of the Senate Small Business Committee. I know that both of these Tennesseans know the value and the wisdom of seeking public comment through the committee hearing process. I emphasize that. I think it is very important that our representative government engages in this process. I am glad to see that you share those sentiments, Mr. Chairman.

We feel fortunate to have you here and welcome you to Tennessee.

I alluded to the fact that I have had enormous service problems when I moved my business earlier this year. But I think I understand that the phone company has a tremendous problem, the attempt by Government to fix something that wasn't broken, and that is a separate issue.

The reason I am here is because I have been described as a small business political activist. I travel widely and I speak to a lot of small business people across the country, but in addition to speaking to them, I also talk with them and listen to them. This year I had the privilege of traveling with Congressman Berkley Bedell to hearings in Boston, St. Louis, and Denver, pertaining to a small business platform for the Democratic Party. I think the record speaks for itself.

The Democratic Party has the most reflective positions on small business. Small business people understand the complexities of a lot of issues, and they understand that this issue we are going to talk about is very complex. But they also possess a very common characteristic which all of you have seen. They have an inordinate amount of common sense. They are willing and able, quite able, to see through the rhetoric at times, and I think if you look at what I am about to say from that perspective, you will see why I think in my generalized statement I reflect a vast sentiment that is not always reflected by organizations like NFIB. I mean no criticism to John Sloan and NFIB, but if you take all the organizations in Washington that represent themselves in their description as a small business organization and total their membership and you had no overlap, you have only about a million members.

Your own statistics clearly indicate that there are approximately 14 million businesses in this country that can be classified as small business. So the general sentiment, the general feeling, the perception of what is going on in Government is not always truly reflected by those organizations, and I think in my case I have had the unique opportunity to travel and listen to a lot of those people, so I am going to attempt to cut through some of this misconception for you.

The small business community in Tennessee indeed welcomes you to Tennessee and feels very pleased that you took the time to come here. The issue we concern ourselves with today is most important, and that is an understatement. It is whether or not small business should be burdened with telephone company access charges for long-distance phone service. In addition to the dollar cost aspect of this issue, there is the equally important, and I am afraid all too familiar, matter of how we as a nation treat the small business sector of our economy. The access charge issue is another in a long list of Government and Government agencies taking small business for granted.

Mr. Chairman, as you know, small business has been burdened in the past and still today with many disproportionate costs. Various studies have shown that small business pays more than its share of utility costs and of many taxes. When hard times are particularly severe, in many cases we are the first denied credit. We are the first to go when the economy turns sour. We are the slowest at times to recover because of our lack of ability to have access to credit. When it comes to paperwork and the redtape that goes with what Government does, we are the last to be considered as to how it affects us, if indeed we are considered at all.

Any one of these problems is enough to put the small firm on the endangered species list. But we are still hanging on and we still contribute greatly to the national economy. We create the majority of new jobs in our economy, and we do the lion's share of innovating. We do these things more efficiently than the big firms with a growing smaller share of the resources.

But in return for these contributions and successes we often receive only apathy from Government policymakers. This access charge issue is no exception. We have a situation where the FCC in an attempt to cover long-distance costs has come up with the idea of imposing flat fees on telephone users.

It is argued by some that these charges are minimal but I must disagree. The national average access charge is $4.89. Here in Tennessee it is $4.85. What is sometimes not made clear but has come out in testimony today is that this is the cost per telephone line not per customer. For example, a small business with four telephone lines would pay almost $20 a month in additional charges. My business has five incoming lines. I use long distance sparingly, but incoming calls are an integral part of what I do. This is some $235 per year in additional costs. In addition, these costs are likely to go up soon. Though there is now a cap of $6 per line per month, this cap is expected to rise to $7 or even $8 early next year. So it is not really a cap. We are opening the door for an additional charge, an additional transfer of how we pay for something.

Mr. Chairman, this added cost comes on top of recent dramatic increases across the country in the cost of the standard business phone service. The cost of Yellow Pages, directory assistance, private lines, installation, repair, and services are going up across the board. So far the FCC says it is sparing small businesses the access charge by limiting access charges to the users with more than one line, but this does not solve the problem. In addition, the way the FCC has handled this matter leaves a lot to be desired.

I emphasize, not only does it leave a lot to be desired, it is unacceptable from our perspective. First of all, the FCC definition of small business is too narrow, and John Sloan I think testified to that earlier. More than 60 percent of their members have more than two lines and, indeed, I use myself as an example; I have five. My sales are about $1 million a year. I compete across the South against large corporations like General Electric.

If it is accepted that small business is not being dealt with on an equitable basis, then the situation should be remedied, not patched. That is the premise I keep hearing as I travel across the country on a lot of issues. The time for patchwork is over. We need remedial action on a lot of these problems. We need to get back to basics and solve the situation. Also, I have seen no efforts to systematically study the impact of access charges on small business. If I am misinformed on this issue, I would ask to be corrected. I am told that the FCC acted on this matter without a study of the potential impact. I think there was appropriate testimony again today to substantiate my position on that.

The charges had already gone into effect before that public comment was not only sought but even received, and again there is no excuse for this. It is an unacceptable situation. Congress would not accept this in their own matters, and I don't think we ought to accept it from an administrative agency that has this much power.

I know in Congress that hearings like this one are held before decisions are made in order to get public reaction. The input is often helpful to the decisionmaking process besides being the right of every citizen. The effort builds public confidence that Government officials are working to make things better, not worse than before. In this case things are worse than they were before this process started.

I have another problem, Mr. Chairman, with the FCC's access charges, and it is the same problem that I have with many flat fees for services. It assumes that everybody uses those services equally, but obviously this is not the case and testimony today has clearly indicated that. It benefits the heavy long distance user and there is no doubt about that. Those who make many long distance calls pay less than their fair share of the costs while those who, in this case many small businesses who make few or no long distance calls, are really subsidizing the heavy user, and that is what it amounts to, and we need to call a spade a spade.

The discount on the long distance removes the access charge, and we need to understand the shell game that the FCC is playing, and the small business community across this country sees it for what it is. Those that use it get out of paying and get an additional discount. Those that don't, pay, and it is an open-ended process.

The FCC proposed access charges deliberately give the big users a break, in my estimation, and I overemphasized deliberately, the word "deliberately." The FCC felt that this would keep the large user from fleeing the system by what is called bypass, and I think there has been adequate testimony this morning that that is not going to stop it. The FCC is even talking about the fact that bypass is going to go on with or without the access change. They have clearly demonstrated by their own testimony that they expect it to continue and they expect to have to raise more revenue. They have substantiated my point that it is not really a cap, it is only a facade to start a process.

Another reason by the FCC for access charges was that these charges would reflect the true cost of long distance service which, according to the FCC, has subsidized local service for years. Now, first, I would like to say that this local service subsidy has never been substantiated by the FCC. They don't have documentation to prove their own point.

Second, it is somewhat ludicrous to speak in terms of true costs and at the same time impose a false cost in the form of a flat fee access charge on small business. We see the inconsistency in that logic.

Mr. Chairman, I think I have demonstrated today that the access charge is totally unfair to small business and that small business should not be singled out, yet again, to pay for something that someone else is really using. It is not a good idea and in practical application it is failing. If the FCC wants to cover costs, let it do so fairly by calling upon everyone who uses long distance to pay to the degree in which they use the service. I will gladly pay my fair share of the cost of long distance. At least I am paying for what I am using. I am not subsidizing General Electric, a mammoth corporation that I compete against in the area of selling some of my products. I am not afraid of GE, but I am concerned if you tie my hands and give them a break to more effectively compete against the little man or woman.

Therefore, Mr. Chairman, I have two basic simple proposals: That the flat access charge be totally eliminated, and that the cost recovery charges for long distance telephone service should be borne equitably by the users of the service.

Mr. Chairman, I thank you and the committee again for allowing me to testify before you today.

Mr. WYDEN. Thank you for a very fine statement, Mr. Nourse.

[Mr. Nourse's prepared statement follows:]

PREPARED STATEMENT OF ROSWELL W. (BILL) NOURSE, OWNER, BROOKMEADE HARDWARE & SUPPLY CO.

Chairman Wyden, my name is Bill Nourse. I own and operate Brookmeade Hardware & Supply here in Nashville. I appreciate your bringing the House Small Business Committee Task Force on telephones to Nashville and thank you especially for inviting me to testify.

Tennesseans have been fortunate over the years in having exceptional representation in Washington. We have also been blessed by distinguished representation on both the House and Senate Small Business Committees. I am happy to say that the present is no exception to this history. Congressman Jim Cooper of Tennessee is a member of your fine committee and our Senator Jim Sasser, is an outstanding member of the Senate Small Business Committee. I know that both of these Tennesseans know the value and the wisdom of seeking public comment through the Committee hearing process. I am glad to see that you share those sentiments, Mr. Chairman.

We feel fortunate to have you here and welcome you to Tennessee.

The issue we concern ourselves with today is an important one. It is whether or not small business should be burdened with telephone company access charges for long distance phone service. In addition to the dollar cost aspect of this issue, there is the equally important, and I am afraid all too familiar, matter of how we as a Nation treat the small business sector of our economy. The access charge issue is another in a long list of actions that take small business for granted.

Mr. Chairman, as you know, small business has been burdened in the past and still today with many disproportionate costs. Various studies have shown that small business pays more than its share of utility costs and of many taxes. It pays more for its credit and during times of tight money is the first to be totally deprived of credit. When the economy turns sour, small businesses are the first to go under and often the last to come back during recovery phases. It seems always to be the last considered when government red tape and paperwork comes down the line—that is, if it is seriously considered at all.

Any one of these problems is enough to put the small firm on the endangered species list. But we are still hanging on and we still contribute greatly to the National economy. We create the majority of new jobs in our economy and we do the lion's share of innovating. We also do what we do more efficiently than anyone else.

But in return for these contributions—these successes, we too often receive only apathy from some government policy makers. This access charge issue seems to be no exception.

We have a situation here where the FCC, in an attempt to cover long distance costs, has come up with the idea of imposing flat fees on telephone users.

It is argued by some that these charges are minimal but I must disagree. The national average access charge is $4.89. Here in Tennessee it is $4.85. What is sometimes not made clear but has come out in testimony today is that this is the cost per telephone line not per customer. For example, a small business with 4 telephone lines would pay almost $20/month in additional charges. This is some $235.00 per year in additional costs. In addition, these costs are likely to go up soon. Though there is now a cap of $6.00 per line per month, this cap is expected to rise to $7.00 or even $8.00 early next year.

Mr. Chairman, this added cost comes on top of recent dramatic increases across the country in the cost of the standard business phone service that all businesses pay. These increases come on top of still further increases in the charges for directory assistance, private lines, installation, repair and service.

So far, the FCC says it is sparing small businesses the access charge by limiting access charges to users with more than one telephone line. But this does not solve the problem, and in addition, the way the FCC has handled this matter leaves a lot to be desired.

First of all, the FCC definition of small business is too narrow. If it is accepted that small business needs relief from access charges, then the need is obvious for a meaningful definition of what that small business sector is. The FCC is in effect saying that small businesses are those with one phone line. But we are told by the National Federation of Independent Business that some 60% of small firms have 2 or more telephone lines.

If it is accepted that small business is not being dealt with on an equitable basis, then the situation should be remedied, not patched.

Also, I have seen no efforts to systematically study the impact of access charges on small business. If I am misinformed on this point, I hope someone will correct me, but I am told the FCC acted on this matter without any study of the potential impact on small business. The charges had already gone into effect before the FCC even requested public comment. There is no excuse for something like this.

I know in Congress that hearings like this one are held before decisions are made in order to get public reaction. The imput is often helpful to the decision making process besides being the right of every citizen. The effort builds public confidence that government officials are working to make things better, not worse than before.

I have another problem, Mr. Chairman, with the FCC's access charges and it is the same problem that I have with many flat fees for services. It is that they are unfair. A flat fee assumes everyone who pays it uses the service to the same degree. But obviously, this is not always the case. The phone access charge is an example. It benefits heavy long distance callers. Those who make many long distance calls pay less than their share of the cost while those who make few or no long distance calls pay more than their share and subsidize the heavy users.

Now a flat fee may fit some situations, despite this unfairness. But here we are talking about millions of dollars and they are going from the smallest users of long distance to the largest.

The FCC proposed access charges deliberately to give the big users a break. The FCC felt this would keep the large user from fleeing the long distance telephone system and setting up its own long distance apparatus. But the heavy users are leaving anyway. A study by Touche-Ross & Company has shown that in 25 sampled states over an 18-month period, this by-passing activity is a reality anyway and it is even accelerating. One-half of the large phone users not currently by-passing, plan to do so in the next three years according to Touche-Ross. Furthermore, a 1983 study done for the C&P Telephone Company in the Washington, D.C. area found that 68% of C&P's 22 largest users expect to use by-pass within the next three to five years. The Washington Post reports that staff economists within the FCC estimate that if by-pass continues to occur at these rates, access charges must be increased sharply to maintain revenues needed to meet operating costs.

Another reason given by the FCC for access charges was that these charges would reflect the true cost of long distance service which, according to the FCC, has subsidized local service for years. Now first, I would like to say that this local service subsidy has never been substantiated by the FCC. Secondly, it is somewhat ludicrous to speak in terms of true costs and at the same time impose a false cost in the form of a flat fee access charge on small business.

Mr. Chairman, I think I have demonstrated today that the access charge is totally unfair to small business and that small business should not be singled out, yet again, to pay someone elses bills. The access charge was a bad idea to begin with and, in practical application, it is failing.

If the FCC wants to cover costs, let it do so fairly by calling upon everyone who uses long distance to pay to the degree in which they use the service. I will gladly pay my fair share of the cost of long distance.

Mr. Chairman, I would propose:

1. That the flat fee access charge be totally eliminated, and
2. Cost recovery charges for long distance telephone service should be borne equitably by the users of the service.

Mr. Chairman, I thank you and the Committee again for allowing me to testify before you today.

Mr. **WYDEN**. I think at this point, so we will have time for questions, Mr. Carver, if you and Mr. Clark could summarize your remarks, that will leave us plenty of time for questions.

Mr. **CARVER**. My problem is going to be addressing that of basic termination charges, which is different perhaps from the access charge description. Perhaps I should go last with a different problem.

Mr. **WYDEN**. Fine.

Mr. Clark?

TESTIMONY OF RONALD CLARK, VICE PRESIDENT, TIME, WEATHER, TEMPERATURE ADVERTISING, INC.

Mr. **CLARK**. I am Ronnie Clark. I own a company called Time, Weather, Temperature Advertising. We are a product of deregulation and what in the Computer 2 ruling came about, the telephone companies had to get out of the time-of-day service. Many of these time-of-day numbers had been in existence in communities throughout the country. I am particularly located in the Tampa area and own the services in the Tampa Bay area, Orlando and

Gainesville. So when the decision was that the phone company had to get out of there, we took over the known time-to-day telephone numbers, upgraded the service to include a weather and temperature forecast.

In the testimony that you have before you we have given you two examples, two cities which we had information for, Orlando and Gainesville. The amount of phone calls in volume that come into these telephone numbers, Orlando receives over 1½ million phone calls a month and Gainesville receives over 450,000 phone calls a month. Now, instead of a bank being the sole sponsor or the telephone company being the sole sponsor, we market it for multiple sponsors like banks, car dealerships, even political messages.

Mr. **Wyden**. I have never heard of one of those.

Mr. **Clark**. If you were running for a position in Orlando, we could put, "Elect Ron Wyden for Congress; we need his voice in Congress. The time is——" 1½ million times a month.

What we are faced with is in order to answer these million and a half phone calls and these 450,000 phone calls a month, we must put enough telephone lines on there in order to not get a busy signal. Busy signals mean unhappy users and unhappy advertisers. The type of lines which we use in the services are one way only. They do not generate a telephone line and they have no way of accessing the local network or the national network. Why then, and my question is if we are only one way, we generate no telephone dial, we do not use the local access, we never contributed to long-distance revenues, why now are we being charged $6 per line for each one of those telephone lines to come in?

My bill as of September 1, 71 lines in Orlando, that is $438. We are talking a small business, one person, Ronnie Clark. Gainesville has gone up to $132 per month. Mr. Wolf says this is small. If I send you a bill for that, you won't mind sending me the money for that. We are talking 100 lines in Tampa. That is $600. You can see the multiple effect of each city. We cannot understand the wisdom of the FCC that these type of lines because of their technical and capability of never accessing the network and never contributing to these long distance revenues, why we are being charged this.

Mr. **Wyden**. We will have some questions later.

Mr. **Clark**. Another point is that the way our particular tariff is in this, in the Southern Bell tariff, which is Orlando and Gainesville, we are paying not only the regular business line rate but a surcharge on top of that based on the number of hours. So now we are being tacked on with the Federal access charge, and we think it should be removed.

[Mr. Clark's prepared statement with attachments follows:]

PREPARED STATEMENT OF RONALD J. CLARK, VICE PRESIDENT, TIME, WEATHER, TEMPERATURE ADVERTISING, INC.

We are writing regarding the Federal access charge which has recently been added to our phone bills. Our objective is to review the historical development of Time of Day services, how these services technically operate in relationship to the telephone network, the adverse economic effect the access charge is having on our services, and most importantly, the impact the access charge will have on communities throughout the country.

HISTORY

Most communities throughout the country have Time of Day services. These services were either paid for by a single sponsor (traditionally a local bank) or, in many cases, were paid for through the rate base charged by the local operating companies, in that the local operating companies carried on their books the cost of providing this service to the public as a business expense. NOT FREE! The rate payers did not mind this expense (or often did not even know they were indirectly paying for this) because it was viewed as a valuable service. The local operating companies were able to justify the expense in arguing that it certainly was more cost effective to have a mechanical machine available twenty-four hours a day dispensing time/weather/temperature than to hire additional operator staff in order to handle the demand for this information.

Enter Judge Greene and Computer II! Within the divestiture ruling was the directive for the holding companies to exit out of the enhanced services such as Time of Day. In many communities, Time of Day services have been in operation with their existing known phone numbers in excess of forty years. Now with Computer II forcing the local operating companies out of this service, what was going to happen?

BIRTH OF TWTA

In March of 1983, Gale Porter and I started a company called Time, Weather, Temperature Advertising (TWTA). We saw the community demand and obvious desire for the Time of Day services and it was our feeling that a profit could be made by selling the five second message heard before the time announcement on a multiple sponsorship basis. Thus, a new advertising was created! (Exhibit A) It must be pointed out that now TWTA has shifted the Time of Day service from an expense entry on the local telephone company's books to a revenue generating proposition, thus providing this service truly "free" to the rate payers.

TWTA initially took over from Southern Bell the Time of Day services in the Orlando and Gainesville communities.(Exhibit B). After considerable haggling and petitions to the Florida Public Service Commission , TWTA began operating in the Tampa area this August. We will be expanding (contract already signed) to St. Petersburg, Clearwater, Lake Wales, Winter Haven, Daytona Beach and Hollywood, Florida by February 1985.

PRESENT SITUATION

We wish to discuss two cities which TWTA is presently operating: Orlando and Gainesville, Florida. Time of Day services traditionally receive a tremendous amount of phone calls. (Exhibit C) In Orlando, our Time/Weather/Temperature service receives in excess of 1.5 million calls per month and Gainesville, over 450,000. In order to provide a quality service, we pay for enough individual telephone lines connected to our equipment in order to attain a telephone industry-standard grade of service of P.01. This avoids busy signals, keeping the community calling and our customers (the advertisers) happy. IT IS THE VOLUME OF INCOMING CALLS (i.e. DEMAND FOR SERVICE) WHICH DICTATES THE NUMBER OF TELEPHONE LINES NEEDED. According to statistical information of a nation wide study provided to AT&T of nearly fifty years of call data compiled by Chilton Research, over 60% of a total community's population will call Time of Day services in an average month. 71% of those calling are adults. (Exhibit D and E)

In order to provide a P.01 grade of service, thus avoiding busy signals, Orlando utilizes 71 incoming lines and Gainesville needs 23 incoming lines. TWTA DOES NOT CONTROL THE NUMBER OF INCOMING LINES NEEDED. THIS IS DETERMINED BY COMMUNITY DEMAND. Although TWTA is indeed a small business, we do use a disproportionately large amount of telephone lines compared to other small businesses.

TWTA ANNOUNCEMENT LINES vs. NORMAL BUSINESS LINES

Discussion of the type of telephone lines and characteristics of these lines used by TWTA announcement services is germain. The characteristics of a TWT announcement line are as follows:

1. The service busy hour is from 6:00 am to 8:00 am (Exhibit F)

2. The completion index is 99%. This index is calls answered versus calls attempted.

3. The percent of TWT announcement service to the total daily traffic during the busy hour is 3%.

4. The percent of originating calls to total calls is 0%. TWT announcement lines neither designed nor are they capable of making out-going calls.

5. TWT announcement lines generate no dial tone.

6. The local network penetration. 50% of TWT announcement equipment is generally located in a main exchange, i.e., near the center of town, so a caller can only penetrate the local network half-way. We are a one-way phone service - incoming calls only!

As contrasted to the normal business lines which have the following characteristics:

1. Busy hour is from 9:00 am to 11:00 am.

2. The completion index is between 65-70%.

3. The percent of total daily traffic in exchange busy hour is 15%.

4. The percent of originating calls to total calls is 75%.

5. The local network penetration includes 100% of all calls originating and terminating across the entire local network.

TWT announcement lines differ greatly from normal business lines because the calling characteristics are not the same due to non-conflicting-busy hours. Also, TWT announcement service operations do not originate traffic. All calls are incoming only. The "off-peak" calling does not increase the basic handling requirements fo the existing network. In fact, it is a more efficient use of the existing local network which has already been designed and built to handle the peak business demand between 9:00 am and 11:00 am. (Exhibit G)

SOUTHERN BELL EXISTING TARIFF

We understand that the FCC's goal is to set local telephone line rates equal to their cost. Under our present tariff rate charged by Southern Bell, we presently pay the B-1 rate plus an additional network usage rate based on the amount of hours our telephone lines are used. This network usage charge averages approximately 20% of the B-1 rate. (Exhibit H)

It is our feeling that this tariff charge is already "at cost" for the phone company service provided, and that the additional Federal access charge will price the service well above costs.

A salient question must be injected; if the lines which TWTA lease from Southern Bell are one-way only with no dial tone and have NEVER HAD THE CAPABILITY of accessing the local and national telephone network, thus never contributing to long distance revenue, why should TWTA now be unfairly burdened with a Federal access charge on each of our in-coming lines to help subsidize the local service for which we are already paying "at cost" or above?

ECONOMIC IMPACT OF THE FEDERAL ACCESS CHARGE

The economic impact of the Federal access charge which has been levied on our phone bill has been staggering. Telephone costs are an obviously high percentage of total costs for TWTA and therefore, more difficult if not impossible to pass on to our customers. Our Gainesville phone bill has increased by $132.00 and our Orlando phone bill has increased $438.00! Both of these represent a 19% increase in the cost of doing business at each location. (Exhibit I)

In order to attract customers to this new meduim, our pricing must not only be competitive but has been well below current advertising rates within the Orlando and Gainesville communities. A consistent 30% across the board through reduction of our published rates has been our actual billed revenues. (Exhibit J) Our marketing efforts have maintained a 70% sponsorship level in both Orlando and Gainesville. With the additional Federal access charge, we are now placed in a non-profitable situation in Gainesville and marginal profitability in Orlando. Even at 100% sponsorship level the Federal access charge will represent a 17% reduction in profit to Orlando and a 30% reduction in Gainesville.

IMPACT ON SMALL BUSINESS

The demand for telephone service for small businesses should be sensitive to rate increases. We feel that the present Federal access charge is clearly discriminatory against TWTA and small businesses as a whole. If the FCC theory was that large businesses subsidize residential customers, unless a flat end user charge was imposed, we feel that because of the delayed imposition of the charge on residential and single line business customers that the FCC in fact has shifted the revenue burden from the large business customers to the small business customer.

ACTION REQUESTED

We feel the Federal access fees are unduly burdensome on small businesses and particularly discriminatory against businesses such as TWTA. We are requesting that Time of Day services be exempt from the Federal access charge due to our present "at cost" tariff rates and more importantly, because TWTA is now being forced to subsidize local service due to the loss of the long distance revenue base of the local operating companies to which Time of Day services neither contributed nor could physically have participated.

If the Federal access charge is not removed, TWT and small businesses are faced with some harsh realities:

1. Reduce the number of telephone lines in order to keep costs in line thus reducing revenue to the phone company and in the case of TWTA, jepordize the integrity of our service

or

2. Simply pull the plug on all of our machines, not only greatly affecting the communities in Central Florida, but also other communities such as New Orleans, Denver, Salt Lake City, Tulsa, and Nashville, who presently have firms marketing the Time of Day service like TWTA.

If companies like TWTA are forced to exit the market place because of an unjust and artificial subsidy program such as the Federal access charge, Time of Day service, due to the continuing demand, will eventually go to a measured unit charge or toll charge base, thus putting a direct cost for time to the consumer. We just want the chance to compete in the free market place.

EXHIBIT A

PEOPLE & CHANGES

Clark Cashes In on the AT&T Breakup

First it was phone manufacturing and long distance telephone companies. Now, a new group of entrepreneurs — private dispensers of time and weather information — have joined the scramble to cash in on the breakup of AT&T.

In years past, the friendly voice on those time and temperature recordings was a public service brought to you courtesy of your local phone company. But ever since the AT&T breakup, confusion has abounded over whether the new Bell companies must divest themselves of the handy little recordings.

While the courts decide, many phone companies are voluntarily pulling the plug on time and weather numbers, allowing private companies to take over. One of those companies is TWTA, a Tampa-based firm that has assumed the rights to time and temperature numbers from Southern Bell in Orlando and Gainesville and General Telephone Co. in the Tampa Bay area. Owned by entrepreneur **Ronnie Clark**, 28, and employment agency owner **Gale Porter**, 49, TWTA makes money by selling the sponsorship of the time and weather recordings to local advertisers. Thus, when a caller phones one of the numbers, he hears not only the time of day, the temperature, and weather recordings, but also a five-second advertisement. An advantage of the medium for advertisers, says Clark, is that it eliminates the "tune-out" factor. "If you're watching TV, you can go fix a sandwich during the commercial. But if you're trying to find out what time it is, your mind is going to be tuned to what's going on." Clark is planning to expand his company to other cities in the United States. In the Orlando market alone, he says, more than two million callers use the phone-in time and temperature service each month.

Florida Trend / April 1984

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FLORIDA TREND, INC.
P.O. Box 611, St. Petersburg FL 33731

EXHIBIT B

TWTA

Time • Weather • Temperature
ADVERTISING

[illegible]

The people of Orlando and surrounding communities have, for over 40 years, been able to receive accurate time information by calling a telephone number. This reliable information has been used to set watches, clocks, and to help keep appointments. Now one phone call not only gives you the correct time, but lets you decide how to dress for the day's activities. One phone number that people trust and rely on . . .

422-1611

[illegible] OF TWTA

A recent Supreme Court decision ruled that Southern Bell must divest itself of some of its holdings. One of the holdings was Orlando's time of day number. With that ruling, TWTA purchased the rights to that number and installed state-of-the-art Audichron equipment, also used by the National Bureau of Standards to broadcast the standard time for the Western Hemisphere. Now TWTA is expanding this service to provide Orlando with time, weather and temperature. Sponsorship of this service is available in a more flexible format than ever before. This trusted community service can be a vital part of your company's marketing and public relations program.

- 1,400,000 calls per month
- 46,000 calls per day
- Excellent demographic characteristics
- Unique advertising medium
- Undivided attention of caller
- Caller initiated action
- Flexibility of messages
- Exact count of contacts

COMPARE TWTA TO OTHER MEDIA

All print, broadcast and outdoor media rely on sample surveys or traffic counts to measure their effectiveness. However, these surveys only **estimate** *how many TV's and radios are on, how many newspapers are read, or how many cars passed by a given location. They can't tell you how many people left the room, talked or in some other way were inattentive during commercials. Think about the paper you read today and how many billboards you passed on your way to work. How many advertisements can you recall from the paper? Whose billboards did you pass? You are one of the numbers estimated in the surveys and traffic counts and one of the prospects those advertisers are trying to reach. Ask yourself...HOW MANY PEOPLE CALL 422-1611 AND DON'T LISTEN? TWTA can and will provide you with an exact count of how many callers receive your message.*

AVAILABLE ON AN EXCLUSIVE OR ROTATING BASIS

Now this new and exciting sales medium is available to you. You may purchase all the advertising and be an exclusive sponsor or you may share the cost with other sponsors in a rotating format. There are twelve sponsorship positions available on a weekly basis.

HIGH QUALITY IMPRESSIONS

Because the caller initiates the contact and is listening intently in a non-competitive environment, a high quality impression that will be remembered is assured. Multiply this quality impression by 46,000 calls **per day** *and the impact of your message becomes very significant.*

COMMUNITY SERVICE

Time, weather, temperature is viewed by the public as a valued service made possible by civic-minded sponsors. The potential for name awareness and a positive public image is unsurpassed.

WHAT TWTA CAN DO FOR YOU

TWTA can establish a cost-effective communication system between you, your customers and potential customers 24 hours a day, 7 days a week while building your image and awareness.

TO ADVERTISE, CONTACT

Time, Weather, Temperature Advertising
1100 N. Florida Avenue
Tampa, FL 33602
(305)849-7459
(813)225-1200

TWTA

Time • Weather • Temperature
ADVERTISING

A GAINESVILLE TRADITION...

The people of Gainesville and surrounding communities have, for over 40 years, been able to receive accurate time information by calling a telephone number. This reliable information has been used to set watches, clocks, and to help keep appointments. Now one phone call not only gives you the correct time, but lets you decide how to dress for the day's activities. One phone number that people trust and rely on . . . .

372-1411

THE BIRTH OF TWTA

A recent Supreme Court decision ruled that Southern Bell must divest itself of some of its holdings. One of the holdings was Gaineville's time of day number. With that ruling, TWTA purchased the rights to that number and installed state-of-the-art Audichron equipment, also used by the National Bureau of Standards to broadcast the standard time for the Western Hemisphere. Now TWTA is expanding this service to provide Gainesville with time, weather and temperature. Sponsorship of this service is available in a more flexible format than ever before. This trusted community service can be a vital part of your company's marketing and public relations program.

- 350,000 calls per month
- 12,000 calls per day
- Excellent demographic characteristics
- Unique advertising medium
- Undivided attention of caller
- Caller initiated action
- Flexibility of messages
- Exact count of contacts

COMPARE TWTA TO OTHER MEDIA

All print, broadcast and outdoor media rely on sample surveys or traffic counts to measure their effectiveness. However, these surveys only ***estimate*** *how many TV's and radios are on, how many newspapers are read, or how many cars passed by a given location. They can't tell you how many people left the room, talked or in some other way were inattentive during commercials. Think about the paper you read today and how many billboards you passed on your way to work. How many advertisements can you recall from the paper? Whose billboards did you pass? You are one of the numbers estimated in the surveys and traffic counts and one of the prospects those advertisers are trying to reach. Ask yourself...HOW MANY PEOPLE CALL 372-1411 AND DON'T LISTEN? TWTA can and will provide you with an exact count of how many callers receive your message.*

AVAILABLE ON AN EXCLUSIVE OR ROTATING BASIS

Now this new and exciting sales medium is available to you. You may purchase all the advertising and be an exclusive sponsor or you may share the cost with other sponsors in a rotating format. There are four sponsorship positions available on a weekly basis.

HIGH QUALITY IMPRESSIONS

Because the caller initiates the contact and is listening intently in a non-competitive environment, a high quality impression that will be remembered is assured. Multiply this quality impression by 12,000 calls ***per day*** *and the impact of your message becomes very significant.*

COMMUNITY SERVICE

Time, weather, temperature is viewed by the public as a valued service made possible by civic-minded sponsors. The potential for name awareness and a positive public image is unsurpassed.

WHAT TWTA CAN DO FOR YOU

TWTA can establish a cost-effective communication system between you, your customers and potential customers 24 hours a day, 7 days a week while building your image and awareness.

Time, Weather, Temperature Advertising
1100 N. Florida Avenue
Tampa, FL 33602
(904) 374-0741

EXHIBIT C

audichron
3620 clearview parkway • atlanta, georgia 30340 • phone 404 455-4870

August 13, 1984

TWTA
MR. RONNIE CLARK
SALES MANAGER
1100 FLORIDA AVENUE
TAMPA, FL 33602

SUBJECT: Time, Weather, Temperature Serivce
TWTA
ORLANDO, FL

DEAR MR. RONNIE CLARK:

Enclosed is your monthly call rate information. If you have any questions or need assistance regarding your call rate or message consultation, please give us a call at 404/455-4870.

The following is your call rate information.

From Date	To Date	Daily Average	Total This Period	Total Since Jan. 11, 1984
07/11/84	08/10/84	52,753	1,582,603	11,078,220

Sincerely yours,

Meg Armistead
Communications Specialist

audichron

3620 clearview parkway • atlanta, georgia 30340 • phone 404 455-4870

July 23, 1984

TWTA
MR. RONNIE CLARK
SALES MANAGER
1100 FLORIDA AVENUE
TAMPA, FL 33602

SUBJECT: Time, Weather, Temperature Service
TWTA
GAINESVILLE, FL

DEAR MR. RONNIE CLARK:

Enclosed is your monthly call rate information. If you have any questions or need assistance regarding your call rate or message consultation, please give us a call at 404/455-4870.

The following is your call rate information.

From Date	to Date	Daily Average	Total This Period	Total Since Jan. 21, 1984
07/21/84	08/20/84	15,118	453,564	3,174,948

Sincerely yours,

Meg Armistead
Communications Specialist

EXHIBIT D

CHILTON RESEARCH SERVICES
PAS STUDY

TABLE-14 QUESTION-12

ANTICIPATED FREQUENCY OF CALLING...
TIME & TEMPERATURE

INDIANA

(FREQUENCIES SHOWN IN THOUSANDS)

		SEX		AGE			EDUCATION			MARITAL STATUS		EMPLOYMENT		METHOD OF PAYMENT		INCOME		
	TOTAL	MALE	FEM-ALE	UNDER 30	30-49	50 & OVER	LESS THAN HIGH SCHOOL	H.S. GRAD	SOME COLL-EGE OR MORE	MARR-IED	NOT MARR-IED	EMP-OYED	NOT EMP-OYED	FLAT RATE	MESS-AGE UNIT	UNDER $10 M	$10M-$20 M	$20 M AND OVER
BASE-TOTAL RESPONCENTS	810 100.0	310 100.0	500 100.0	274 100.0	246 100.0	274 100.0	216 100.0	330 100.0	242 100.0	580 100.0	214 100.0	425 100.0	365 100.0	683 100.0	30 100.0	276 100.0	359 100.0	58 100.0
VERY/SOMEWHAT LIKELY TO CALL	538 66.4	193 62.3	345 69.0	226 82.5	175 71.1	131 47.8	111 51.4	238 72.1	183 75.6	393 67.8	139 65.0	296 69.6	236 64.7	468 68.5	18 60.0	169 61.2	266 74.1	42 72.4
FREQUENCY OF CALLING																		
EVERY DAY	101 12.5	38 12.3	64 12.8	52 19.0	34 13.8	16 5.8	22 10.2	40 12.1	40 16.5	77 13.3	24 11.2	54 12.7	48 13.2	97 14.2	2 6.7	22 8.0	56 15.6	10 17.2
SEVERAL TIMES A WEEK	163 20.1	46 14.8	117 23.4	67 24.5	58 23.6	32 11.7	28 13.0	87 26.4	44 18.2	105 18.1	52 24.3	91 21.4	66 18.1	141 20.6	4 13.3	54 19.6	79 22.0	10 17.2
ABOUT ONCE A WEEK	89 11.0	28 9.0	62 12.4	38 13.9	32 13.0	20 7.3	18 8.3	42 12.7	30 12.4	69 11.9	20 9.3	48 11.3	42 11.5	79 11.6		30 10.9	40 11.1	10 17.2
SEVERAL TIMES A MONTH	56 6.9	32 10.3	24 4.8	28 10.2	14 5.7	14 5.1	14 6.5	18 5.5	24 9.9	40 6.9	16 7.5	34 8.0	22 6.0	40 5.9	8 26.7	20 7.2	28 7.8	4 6.9
ABOUT ONCE A MONTH	46 5.7	20 6.5	26 5.2	14 5.1	18 7.3	14 5.1	10 4.6	20 6.1	16 6.6	38 6.6	8 3.7	28 6.6	18 4.9	36 5.3	4 13.3	14 5.1	20 5.6	6 10.3
LESS OFTEN THAN ONCE A MONTH	48 5.9	22 7.1	26 5.2	14 5.1	10 4.1	24 8.8	8 3.7	18 5.5	22 9.1	38 6.6	10 4.7	24 5.6	24 6.6	42 6.1		14 5.1	28 7.8	2 3.4
DON'T KNOW	36 4.4	8 2.6	28 5.6	14 5.1	10 4.1	12 4.4	12 5.6	14 4.2	8 3.3	26 4.5	10 4.7	18 4.2	18 4.9	34 5.0		16 5.8	16 4.5	
NOT LIKELY TO CALL	260 32.1	113 36.5	147 29.4	46 16.8	69 28.0	135 49.3	99 45.8	87 26.4	60 24.8	183 31.6	67 31.3	125 29.4	121 33.2	208 30.5	10 33.3	103 37.3	89 24.8	16 27.6
DON'T KNOW	12 1.5	4 1.3	8 1.6	2 .7	2 .8	8 2.9	6 2.8	4 1.2		4 .7	8 3.7	4 .9	8 2.2	6 .9	2 6.7	4 1.4	4 1.1	

CHILTON RESEARCH SERVICES
PAS STUDY

TABLE-19 QUESTION-13

PLACE FROM WHICH CALL WOULD BE PLACED...
TIME & TEMPERATURE

INDIANA

(FREQUENCIES SHOWN IN THOUSANDS)

		SEX		AGE			EDUCATION			MARITAL STATUS		EMPLOYMENT		METHOD OF PAYMENT		INCOME		
	TOTAL	MALE	FEMALE	UNDER 30	30-49	50 & OVER	LESS THAN HIGH SCHOOL	H.S. GRAD	SOME COLLEGE OR MORE	MARRIED	NOT MARRIED	EMPOYED	NOT EMPOYED	FLAT RATE	MESSAGE UNIT	UNDER $10 M	$10M-$20 M	$20 M AND OVER
BASE-TOTAL RESPONDENTS	810	310	500	274	246	274	216	330	242	580	214	425	365	683	30	276	359	58
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.C	100.0
VERY/SOMEWHAT LIKELY TO CALL	538	193	345	226	175	131	111	238	183	393	139	296	236	468	18	169	266	42
	66.4	62.3	69.0	82.5	71.1	47.8	51.4	72.1	75.6	67.8	65.0	69.6	64.7	68.5	60.0	61.2	74.1	72.4
PLACE USED																		
HOME	494	161	333	197	165	127	107	226	155	367	121	254	234	435	16	159	246	32
	61.0	51.9	66.6	71.9	67.1	46.4	49.5	68.5	64.0	63.3	56.5	59.8	64.1	63.7	53.3	57.6	68.5	55.2
PLACE OF WORK	20	16	4	12	6	2	2	8	10	16	4	18	2	20		4	12	4
	2.5	5.2	.8	4.4	2.4	.7	.9	2.4	4.1	2.8	1.9	4.2	.5	2.9		1.4	3.3	6.9
EQUALLY OFTEN-HOME/WORK	22	14	8	16	4	2	2	4	16	8	14	22		14	2	6	6	6
	2.7	4.5	1.6	5.8	1.6	.7	.9	1.2	6.6	1.4	6.5	5.2		2.0	6.7	2.2	1.7	10.3
PUBLIC TELEPHONE	2	2		2					2	2		2					2	
	.2	.6		.7					.8	.3		.5					.6	
DON'T KNOW																		
NOT LIKELY TO CALL	260	113	147	46	69	135	99	87	60	183	67	125	121	208	10	103	89	16
	32.1	36.5	29.4	16.8	28.0	49.3	45.8	26.4	24.8	31.6	31.3	29.4	33.2	30.5	33.3	37.3	24.8	27.6
DON'T KNOW	12	4	8	2	2	8	6	4		4	8	4	8	6	2	4	4	
	1.5	1.3	1.6	.7	.8	2.9	2.8	1.2		.7	3.7	.9	2.2	.9	6.7	1.4	1.1	

CHILTON RESEARCH SERVICES
PAS STUDY

TABLE-29 QUESTION-15

DAY ON WHICH CALL WOULD BE MADE...
TIME & TEMPERATURE

INDIANA

(F R E Q U E N C I E S S H O W N I N T H O U S A N D S)

		SEX		AGE			EDUCATION			MARITAL STATUS		EMPLOYMENT		METHOD OF PAYMENT		INCOME		
	TOTAL	MALE	FEM-ALE	UNDER 30	30-49	50 & OVER	LESS THAN HIGH SCHOOL	H.S. GRAD	SOME COLL-EGE OR MORE	MARR-IED	NOT MARR-IED	EMP-OYED	NOT EMP-OYED	FLAT RATE	MESS-AGE UNIT	UNDER $10 M	$10M-$20 M	$20 M AND OVER
BASE-TOTAL RESPONDENTS	810	310	500	274	246	274	216	330	242	580	214	425	365	683	30	276	359	58
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
VERY/SOMEWHAT LIKELY TO CALL	538	193	345	226	175	131	111	238	183	393	139	296	236	468	18	169	266	42
	66.4	62.3	69.0	82.5	71.1	47.8	51.4	72.1	75.6	67.8	65.0	69.6	64.7	68.5	60.0	61.2	74.1	72.4
DAY																		
WEEKDAY	369	133	236	155	123	89	81	155	129	272	95	208	159	331	8	97	197	38
	45.6	42.9	47.2	56.6	50.0	32.5	37.5	47.0	53.3	46.9	44.4	48.9	43.6	48.5	26.7	35.1	54.9	65.5
WEEKEND	121	42	79	52	42	24	20	64	36	95	22	69	48	101	8	42	54	4
	14.9	13.5	15.8	19.0	17.1	8.8	9.3	19.4	14.9	16.4	10.3	16.2	13.2	14.8	26.7	15.2	15.0	6.9
DON'T KNOW	48	18	30	20	10	18	10	20	18	26	22	18	30	36	2	30	16	
	5.9	5.8	6.0	7.3	4.1	6.6	4.6	6.1	7.4	4.5	10.3	4.2	8.2	5.3	6.7	10.9	4.5	
NOT LIKELY TO CALL	260	113	147	46	69	135	99	87	60	183	67	125	121	208	10	103	89	16
	32.1	36.5	29.4	16.8	28.0	49.3	45.8	26.4	24.8	31.6	31.3	29.4	33.2	30.5	33.3	37.3	24.8	27.6
DON'T KNOW	12	4	8	2	2	8	6	4		4	8	4	8	6	2	4	4	
	1.5	1.3	1.6	.7	.8	2.9	2.8	1.2		.7	3.7	.9	2.2	.9	6.7	1.4	1.1	

EXHIBIT E

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

1100 Florida Avenue • Tampa, Florida 33602 • Phone (813) 225-1200

DEMOGRAPHIC PROFILE

ORLANDO

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

-females are more likely to call than males.

-individuals between the ages of 30-49 years of age.

-individuals with at least a high school education.

-married individuals are more likely to call than unmarried individuals.

-individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

-females are more likely to call than males.

-individuals under 30 years of age.

-individuals with at least a high school education.

-single individuals are slightly more likely to call than married individuals.

-individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather and Temperature in 1984 is estimated to average 1,709,000 calls monthly in the Orlando calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

6/84

A BETTER WAY TO ADVERTISE

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING
1100 Florida Avenue • Tampa, Florida 33602 • Phone (813) 225-1200

DEMOGRAPHIC PROFILE

GAINESVILLE

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community. Southern Bell was one of twenty Bell companies which participated in this survey.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

-females are more likely to call than males.

-individuals between the ages of 30-49 years of age.

-individuals with at least a high school education.

-married individuals are more likely to call than unmarried individuals.

-individuals being in households with an income of $39,560* or higher.

Among those individuals who call for "time":

-females are more likely to call than males.

-individuals under 30 years of age.

-individuals with at least a high school education are more likely to call.

-single individuals are slightly more likely to call than married individuals.

-individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather, and Temperature in 1984 is estimated to average 500,000 calls monthly in the Gainesville calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

A BETTER WAY TO ADVERTISE
TWTA

7/84

EXHIBIT F

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Formal Complaint of Time, Weather, Temperature Advertising, Inc.	Docket No. 830494-TL Filed: June 5, 1984

NOTICE OF FILING ANSWERS TO INTERROGATORIES

Comes now, Complainant, TIME, WEATHER, TEMPERATURE ADVERTISING, INC., by and through its undersigned counsel, and hereby files its Answers to Interrogatories from the Staff attached hereto.

BUTLER AND BURNETTE

WILLIAM F. MERLIN, JR., ESQUIRE
One Mack Center - Suite 1100
501 E. Kennedy Boulevard
Tampa, Florida 33602-4985
(813) 223-9317
Attorneys for Complainant

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U.S. Mail to Sid J. White, Jr., Staff Counsel, Public Service Commission, Fletcher Building, 101 E. Gaines Street, Tallahassee, Florida 32301-8153 and Lorin H. Albeck, Esquire, General Telephone Company of Florida, Post Office Box 110, MC 7, Tampa, Florida 33601, this 5th day of June, 1984.

WILLIAM F. MERLIN, JR., ESQUIRE

BUTLER AND BURNETTE
ATTORNEYS AT LAW
ONE MACK CENTER
SUITE 1100
501 E. KENNEDY BOULEVARD
TAMPA, FLORIDA 33602-4985
(813) 223-9317

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Formal complaint of Time, Weather, Temperature Advertising against General Telephone Company of Florida.	DOCKET NO. 830494-TL FILED: April 18, 1984

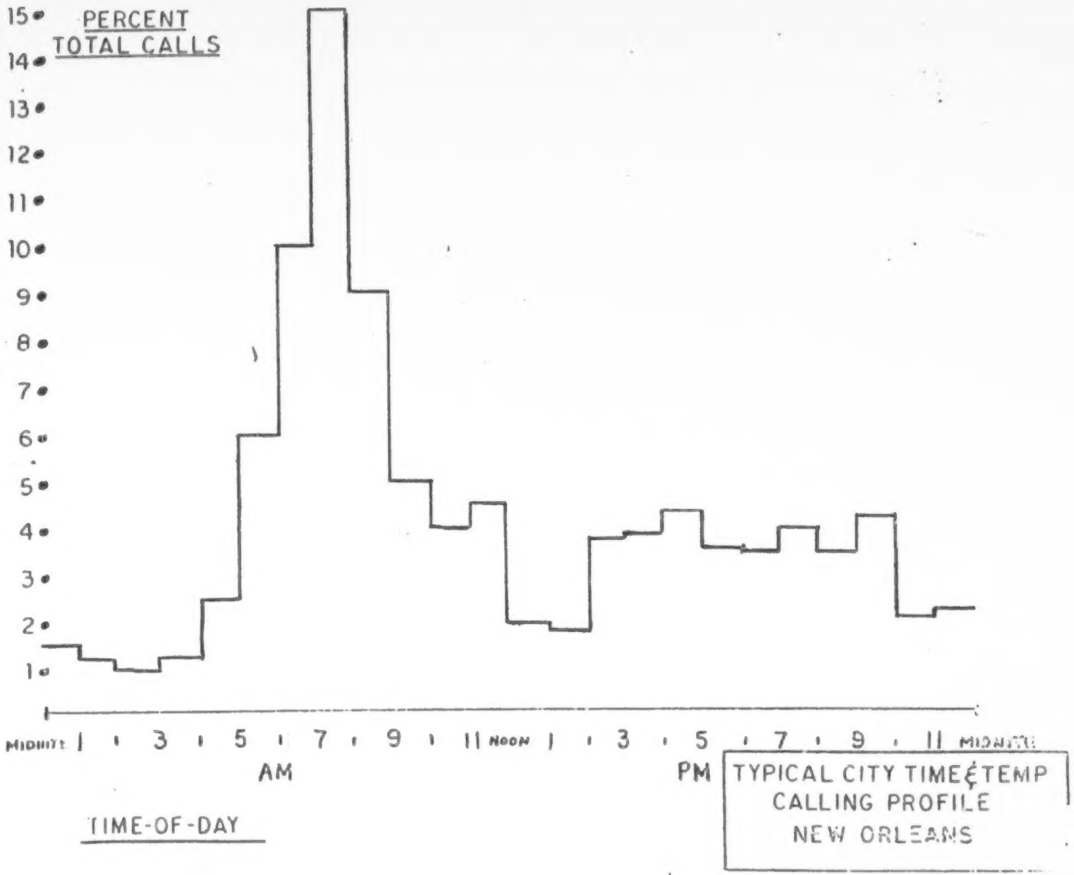
STAFF'S FIRST SET OF INTERROGATORIES TO COMPLAINANT

The Staff of the Florida Public Service Commission, by and through its undersigned attorney, requests the following data from Time, Weather, Temperature Advertising pursuant to Rule 1.340, Florida Rules of Civil Procedure. The interrogatory shall be answered under oath by you through your agent who is qualified and who will be identified, with said answers being served as provided by the Florida Rules of Civil Procedure.

1. Provide nationwide statistics to substantiate Complainant's assertion that usage patterns for time, weather, and temperature customers do not conflict with the accepted industry busy hours of 8:00 A.M. to 5:00 P.M. Provide this information based upon all available actual data and employ projections or estimations where necessary. Detail all processes and assumptions made i the compilation of this data.

The total amount of common control equipment and inter-office facilities required for a central office has long been established as that required during the "busy hour", normal busy day, busy season. This is further recognized by night, holiday, and late night discounts applied to toll rates and also to "usage sensitive" local rates. To compare this to a highway, how many lanes that are needed (which represents the expense) are simply determined by what is needed for the rush hour. Similarly, airline rates and others long recognize differentials for off-hour travelling.

Typically, central office "busy hour" is 10:00 a.m. to 12:00 a.m. PBX trunk "busy hour" is 10:00 a.m. to 12:00 a.m. Based on data collected since 1933, the Time of Day peak demand for this information has been in the early morning hours of 6:00 to 8:00 a.m. local time. This is substantiated further by traffic study reports from New Orleans, Houston, Sugarland and surveys conducted by Chilton Research for A T & T on the calling habits for Time of Day.



TYPICAL CITY TIME & TEMP
CALLING PROFILE
NEW ORLEANS

I. W. I. TRAFFIC Study 844.

	8-23-82 CCS	8-23-82 P. COUNT	8-23-82 HDT.	8-24-82 CCS	8-24-8 P. COUNT
0100					
0200					
0300					
0400					
0500					
0600					
0700					
0800					
0900				33	108
1000				35	124
1100				37	128
1200	62	219	116	50	176
1300	38	125	31	35	121
1400	33	120	27	33	103
1500	39	123	31	43	145
1600	45	151	30	47	151
1700	65	225	29	63	216
1800	22	76	35	34	111
1900	16	57	28	20	[illegible]
2000	23	76	30	16	[illegible]
2100	23	85	27	20	[illegible]
2200	32	110	30	21	[illegible]
2300				21	[illegible]
2400				19	[illegible]

[illegible] = [illegible]
[illegible] = [illegible]
Holding time = [illegible]

7	8	9	10	11	12	13	
[illegible]-25-52 CCS	[illegible]-25-52 P. COUNT	[illegible] HDI	5-26-52 CCS	5-26-52 P. COUNT	5-26-52 HDI =		
7	25	21	6	21	31		1
2	6	21	4	77	26		2
4	14	25	7	12	27		3
4	15	21	4	15	27		4
5	16	[illegible]	4	16	27		5
11	37	29	15	61	30		6
18	64	28	53	173	30		7
16	55	30	60	204	29		8
27	51	29	16	58	28		9
26	86	30	17	62	28		10
26	93	25	28	103	27		11
56	196	29	75	114	31		12
35	119	28	24	75	32		13
39	130	30	18	66	27		14
37	192	30	32	108	30		15
47	160	29	39	133	29		16
75	261	29	54	185	29		17
34	117	29	27	93	29		18
22	76	29	21	75	27		19
21	72	30	17	56	31		20
29	101	28	21	70	30		21
33	117	28	27	91	29		22
34	81	29	23	75	30		23
15	49	30	12	40	29		24

	7	8	9	10	11	12	13
82	8-29-82	8-29-82	8-29-82	8-30-82	8-30-82	8-30-82	
T	CCS	P.COUNT	HDT	CCS	P.COUNT	HDT	
27	10	34	29	6	22	28	
29	5	17	30	2	6	33	
30	2	8	31	2	6	30	
31	3	11	28	2	9	28	
28	2	6	32	3	12	28	
26	3	12	29	15	52	29	
31	6	20	30	40	139	29	
30	9	30	31	67	225	30	
31	19	74	26	25	88	29	
29	29	94	31	18	62	29	
30	32	78	29	21	76	27	
29	22	78	29	40	131	31	
28	25	80	32	25	85	29	
29	24	84	29	32	73	31	
30	24	82	29	26	86	30	
29	27	92	29	39	135	29	
29	28	94	30	57	196	28	
27	22	80	27	28	91	31	
27	18	60	29	26	96	28	
27	21	79	27	18	56	32	
26	25	90	28	31	112	28	
28	37	130	28	37	126	29	
28	32	106	30	16	53	30	
28	14	49	29	15	50	30	

	8-31-82 CCS	8-31-82 P. COUNT	8-31-82 HDT	9-1-82 CCS	9-1-82 P. COUN
0100	4	11	32	6	21
0200	3	10	31	2	6
0300	2	8	26	2	7
0400	3	9	29	2	6
0500	5	16	30	6	19
0600	16	55	29	14	45
0700	39	131	30	41	135
0800	48	166	29	55	194
0900	22	78	28	21	75
1000	19	64	30	18	64
1100	30	101	30	25	83
1200	31	135	30	36	119
1300	[illegible]	65	[illegible]	20	65
1400	[illegible]	70	[illegible]	23	78
1500	[illegible]	[illegible]	31	26	71
1600	[illegible]	114	[illegible]	32	[illegible]
1700	[illegible]	[illegible]	[illegible]	63	[illegible]
1800	[illegible]	[illegible]	[illegible]	37	[illegible]
1900	[illegible]	94	[illegible]	29	[illegible]
2000	[illegible]	[illegible]	[illegible]	24	[illegible]
2100	[illegible]	[illegible]	[illegible]	31	[illegible]
2200	[illegible]	[illegible]	[illegible]	36	[illegible]
2300	[illegible]	[illegible]	[illegible]	38	[illegible]
2400	[illegible]	[illegible]	[illegible]	11	[illegible]

```
STON TIME OF DAY BUSY STUDY   Jackson Exchange       (EXBH=1:00)
-------------------------------------------------------------------------------------------------
   Date   08/30/82
   Time  Peg Count      Usage   AHT-Secs    PCHr/Day       Time  PC/BHRPC        Graph    UHr/Day
   0.30        542         68      12.55        0.03       0.30      0.15 *                   0.02
   1.00        460         58      12.61        0.02       1.00      0.13 *                   0.02
   1.30        376         34       9.04        0.02       1.30      0.11 *                   0.01
   2.00        263         28      10.65        0.01       2.00      0.07                     0.01
   2.30        217         27      12.44        0.01       2.30      0.06                     0.01
   3.00        204         20      13.73        0.01       3.00      0.06                     0.01
   3.30        178         22      12.36        0.01       3.30      0.05                     0.01
   4.00        212         24      11.32        0.01       4.00      0.06                     0.01
   4.30        265         35      13.21        0.01       4.30      0.08                     0.01
   5.00        382         56      14.66        0.02       5.00      0.11 *                   0.02
   5.30        625         89      14.24        0.03       5.30      0.18 *                   0.02
   6.00       1085        151      13.92        0.05       6.00      0.31 ***                 0.04
   6.30       1599        239      14.95        0.08       6.30      0.45 ****                0.06
   7.00       2191        270      12.69        0.11       7.00      0.62 ******              0.07
   7.30       3523        284       8.06        0.17       7.30      1.00 ***********         0.08
   8.00       2122        245      11.55        0.10       8.00      0.60 ******              0.07
   8.30       1426        171      11.99        0.07       8.30      0.40 ****                0.05
   9.00        861        126      14.63        0.04       9.00      0.24 **                  0.03
   9.30        783        108      13.79        0.04       9.30      0.22 **                  0.03
  10.00        769        139      18.08        0.04      10.00      0.22 **                  0.04
  10.30        758        174      22.96        0.04      10.30      0.22 **                  0.05
  11.00        780        188      24.10        0.04      11.00      0.22 **                  0.05
  11.30        841        186      22.12        0.04      11.30      0.24 **                  0.05
  12.00        848        188      22.17        0.04      12.00      0.24 **                  0.05
  12.30        790        174      22.03        0.04      12.30      0.22 **                  0.05
  13.00        675        157      23.26        0.03      13.00      0.19 *                   0.04
  13.30        660        163      24.70        0.03      13.30      0.19 *                   0.04
  14.00        756        169      22.35        0.04      14.00      0.21 **                  0.05
  14.30        803        188      23.41        0.04      14.30      0.23 **                  0.05
  15.00        787        199      25.29        0.04      15.00      0.22 **                  0.05
  15.30        846        191      22.58        0.04      15.30      0.24 **                  0.05
  16.00       1004        209      20.82        0.05      16.00      0.28 **                  0.06
  16.30       1231        243      19.74        0.06      16.30      0.35 ***                 0.07
  17.00       1487        287      19.30        0.07      17.00      0.42 ****                0.08
  17.30       1312        255      19.44        0.06      17.30      0.37 ***                 0.07
  18.00        888        187      21.06        0.04      18.00      0.25 **                  0.05
  18.30        747        177      23.69        0.04      18.30      0.21 **                  0.05
  19.00        795        193      24.28        0.04      19.00      0.23 **                  0.05
  19.30        670        173      25.82        0.03      19.30      0.19 *                   0.05
  20.00        556        160      28.78        0.03      20.00      0.16 *                   0.04
  20.30        676        186      27.51        0.03      20.30      0.19 *                   0.05
  21.00        777        178      22.91        0.04      21.00      0.22 **                  0.05
  21.30        891        204      22.90        0.04      21.30      0.25 **                  0.05
  22.00        910        200      21.98        0.04      22.00      0.26 **                  0.05
  22.30        865        125      14.45        0.04      22.30      0.25 **                  0.03
  23.00        757        173      22.85        0.04      23.00      0.21 **                  0.05
  23.30        658        164      24.92        0.03      23.30      0.19 *                   0.04
  24.00        521        142      27.26        0.03      24.00      0.15 *                   0.04
             41372       7443      17.99        2.02      24.00     11.74 ***********         2.08
```

```
TUDY   Jackson Exchange        (EXBH=1100)
-----------------------------------------------------------------------------

  Usage   AHT-Secs    PCHr/Day       Time   PC/BHRPC       Graph    UHr/Day
     68      12.55        0.03       0.30      0.15 *                  0.02
     58      12.61        0.02       1.00      0.13 *                  0.02
     34       9.04        0.02       1.30      0.11 *                  0.01
     26      10.65        0.01       2.00      0.07                    0.01
     27      12.44        0.01       2.30      0.06                    0.01
     28      13.73        0.01       3.00      0.06                    0.01
     22      12.36        0.01       3.30      0.05                    0.01
     24      11.32        0.01       4.00      0.06                    0.01
     35      13.21        0.01       4.30      0.08                    0.01
     56      14.66        0.02       5.00      0.11 *                  0.02
     89      14.24        0.03       5.30      0.18 *                  0.02
    151      13.92        0.05       6.00      0.31 ***                0.04
    239      14.95        0.08       6.30      0.45 ****               0.06
    278      12.69        0.11       7.00      0.62 ******             0.07
    284       8.06        0.17       7.30      1.00 ***********        0.08
    245      11.55        0.10       8.00      0.60 ******             0.07
    171      11.99        0.07       8.30      0.40 ****               0.05
    126      14.63        0.04       9.00      0.24 **                 0.03
    108      13.79        0.04       9.30      0.22 **                 0.03
    139      18.08        0.04      10.00      0.22 **                 0.04
    174      22.96        0.04      10.30      0.22 **                 0.05
    188      24.10        0.04      11.00      0.22 **                 0.05
    186      22.12        0.04      11.30      0.24 **                 0.05
    188      22.17        0.04      12.00      0.24 **                 0.05
    174      22.03        0.04      12.30      0.22 **                 0.05
    157      23.26        0.03      13.00      0.19 *                  0.04
    163      24.70        0.03      13.30      0.19 *                  0.04
    169      22.35        0.04      14.00      0.21 **                 0.05
    188      23.41        0.04      14.30      0.23 **                 0.05
    199      25.29        0.04      15.00      0.22 **                 0.05
    191      22.58        0.04      15.30      0.24 **                 0.05
    209      20.82        0.05      16.00      0.28 **                 0.06
    243      19.74        0.06      16.30      0.35 ***                0.07
    287      19.30        0.07      17.00      0.42 ****               0.08
    255      19.44        0.06      17.30      0.37 ***                0.07
    187      21.06        0.04      18.00      0.25 **                 0.05
    177      23.69        0.04      18.30      0.21 **                 0.05
    193      24.28        0.04      19.00      0.23 **                 0.05
    173      25.82        0.03      19.30      0.19 *                  0.05
    160      28.78        0.03      20.00      0.16 *                  0.04
    186      27.51        0.03      20.30      0.19 *                  0.05
    178      22.91        0.04      21.00      0.22 **                 0.05
    204      22.90        0.04      21.30      0.25 **                 0.05
    200      21.98        0.04      22.00      0.26 **                 0.05
    125      14.45        0.04      22.30      0.25 **                 0.03
    173      22.85        0.04      23.00      0.21 **                 0.05
    164      24.92        0.03      23.30      0.19 *                  0.04
    142      27.26        0.03      24.00      0.15 *                  0.04
   7443      17.99        2.00      24.00     11.74 **********         2.00
```

	1 8-27-82 CCS	2 8-27-82 P.COUNT	3 8-27-8 ADT	4 8-28-82 CCS	5 8-28-8 P.COUN
0100	6	20	28	7	25
0200	5	14	32	7	24
0300	3	9	34	4	13
0400	4	13	29	3	10
0500	3	11	27	3	11
0600	13	43	30	4	14
0700	36	126	29	6	13
0800	56	193	29	13	42
0900	26	84	30	16	57
1000	19	62	30	22	75
1100	21	68	30	23	76
1200	30	99	30	26	91
1300	18	57	32	25	80
1400	19	63	30	22	76
1500	28	98	28	18	61
1600	36	120	30	26	91
1700	61	203	30	25	86
1800	27	91	30	24	83
1900	18	61	30	20	70
2000	18	61	30	17	62
2100	20	70	28	23	87
2200	22	75	29	24	84
2300	22	70	31	17	60
2400	10	34	29	14	50

EXHIBIT G

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Formal Complaint of Time, Weather, Temperature Advertising, Inc.

Docket No. 830494-TL

Filed: June 18, 1984

PREFILED TESTIMONY OF ED MARTIN

Q Please state your name and business address.

A My name is Ed Martin. I work at the Audichron Company located at 3620 Clearview Parkway, Atlanta, Georgia 30340.

Q What is your oocupation?

A I am currently the Manager of Marketing Services for the Audichron Company.

Q When did you begin your employment with Audichron?

A May, 1963.

Q Do you have experience and knowledge of time-of-day, time-weather-temperature and other dial-it systems?

A Yes.

Q What is that experience or knowledge?

A Since 1964 I have been involved with time-of-day and time-weather-temperature systems. I am intimately familiar with the building and design of such systems, the maintenance characteristics and requirements of such systems, the peculiar interface requirements of such systems with telephone company systems, the marketing of such systems and the determination of the rate structure and tariff rate structure of such systems.

Q What is your experience with the rate structure of such systems?

A In some manner, I have worked with or participated in writing every public announcement service tariff of the General Telephone Company, except in the States of California and Washington. This involvement has included the drafting of the tariff, the determination of rate structure strategy so as to get the various Public Service Commissions to accept such rates, the providing of data input, as well as providing the underlying justifications and rationales for such tariffs. This experience is not limited to the General Telephone Company but the Bell operating companies as well.

Q Have you ever appeared in person before any state Public Service Commission regarding rate tariffs?

A Yes. I appeared before the Arkansas Public Service Commission regarding the appropriate manner to determine the rate structure of public announcement service systems.

Q Through your experience with the Audichron Company and public announcement services, please explain the historical and present day existence of such systems.

A In 1933, the Audichron Company invented equipment necessary to provide time-of-day announcements over the telephone. Audichron currently markets time-of-day, time and temperature and time-weather-temperature services throughout the territory served by General Telephone Company of Florida. Similar systems are in operation at more than 2,000 locations throughout the world.

Audichron provides equipment and services nationwide to all Bell operating companies, General Telephone Company, most of the smaller independent telephone companies, the United States Government and the National Bureau of Standards.

Since the inception of the first time-of-day service in Atlanta, Georgia in 1933, there have been three types of environments for these services:

1. Free to the public. These are telephone company sponsored systems.

2. Consumers pay for the system through message unit pricing where the telephone company merely provides the ability to use the service.

3. Free to the public. These are commercial sponsored systems.

All three environments are in existence today in various areas of the United States.

The first system, free to the public -- telephone company sponsored, are present in many areas of the Bell system, General Telephone Company system, United Telephone Company system, Continental Company system, etc. Time-of-day or time-temperature service is provided as a public service to subscribers in this type of environment. Calls are free to the public, and the service cost is borne by the local rate base. The underlying rationale for service provided on this basis is: a) time-of-day and time and temperature are considered essential services to the public; b) request for time-of-day information was removed from telephone operator positions to less expensive machine operated stations; c) commercial messages preceding time-of-day for time and temperature announcements provided the telephone companies a conduit for selling other telephone services to consumers; d) the services enhanced the value of the telephone to consumers.

The second environment is where the consumer pays for the service but the telephone company is the provider. In several areas of the United States, Chicago, New York, New Jersey, telephone subscribers are under a message unit pricing environment. Consequently, all public announcement services are billed to consumers under a message unit pricing scheme with revenues received by the telephone company. Generally, there are no commercial messages in this environment.

The third environment is where the systems are free to the public, but the systems are commercially sponsored by non-telephone entities. This is perhaps the most prevalent manner in which public announcement services are made available to the general public. This approach keeps essential services free to the public; yet, satisfies the telephone company's need to remove calls from operating positions and generate revenue. In order for all parties with a vested interest to be successful in this arena, services must be viable from a marketing standpoint. In other words, the commercial sponsor must receive some type of monetary benefit in order for this arena to survive.

Historically, all equipment necessary to provide time-of-day and time-temperature was located in the telephone company's central office. Today, with the divestiture of the Bell System and the need for compliance with the FCC II inquiry, all telephone companies must remove all enhanced services, including public announcement services from central office locations. Now, time-of-day, time and temperature and time-weather-temperature services are available for commercial sponsors to the serving telephone company public announcement service tariff.

Q How have these public announcement service tariffs been determined?

A In the past, the determining of rate structures for such tariffs has been a joint process of development between the telephone company and Audichron. This process included particular cost elements of what was provided by the telephone company from a central office located system to encompass space in the central office, power, maintenance, message changes, meter reading reports, switching arrangements, central office lines, etc. Telephone facilities were generally provided for slightly less than a business individual line rate, commonly known as B-1. Currently, lines to public announcement services are provided in the Mountain Bell Telephone Company at a one party measured rate which is the lowest business rate category. In a South Central Bell five state area, lines are provided at 65 percent of the B-1 rate. In smaller to medium-sized cities, these services were both affordable to the sponsor and compensatory to the telephone company at a rate no less than a resident one party and no more than a business one party rate.

Q Have you had an opportunity to review the rate charged by the General Telephone Company of Florida with regard to public announcement services and come to some opinion regarding that rate?

A Yes. Due to Audichron's and my involvement in the design of tariffs and implementation of these services nationwide and in Florida, it is my opinion that the cost structure of the service alleged by General Telephone Company of Florida and its underlying rate are improper. I believe that the current rate, which is substantially the PBX line rate, has very little similarity to the cost characteristics of a time-temperature or time-weather-temperature line.

The characteristics of a time-of-day, time and temperature and time-weather-temperature announcement line are as follows:

1. The service busy hour is from 6 to 8 a.m.

2. The completion index is 99 percent. This index is calls answered versus calls offered. Audichron systems are dimensioned for PO.1 grade of service.

3. The percent of public announcement service to the total daily traffic during the exchange busy hour is 3 percent.

4. The percent of originating calls to total calls is 0 percent.

5. The local network penetration. Fifty percent of public announcement services are generally located in a main exchange, i.e., near the center of town, so a caller can only penetrate network halfway.

These characteristics are contrasted to the PBX service which has the following characteristics:

1. Busy hour is from 9 to 11 a.m.

2. The completion index is between 65 and 70 percent. This index is calls answered versus calls offered.

3. The percent of PBX total daily traffic in exchange busy hour is 15 percent.

4. The percent of originating calls to total calls is 75 percent.

5. The local network penetration includes 100 percent of all calls originating and terminating across the entire exchange area.

The current trunk rate charged by General Telephone Company to Time-Weather-Temperature Advertising is inappropriate because the calling characteristics for these public announcement services are not the same as a PBX trunk.

Q What will be the effect to public announcement services if the current PBX trunk rate is not reduced to a lower rate?

A An actual attrition of service to the public will result because commercial sponsors will not be able to find public announcement services compensable. For example, there are approximately 11 locations in the General Telephone Company of Florida where either time-of-day or time and temperature is available. Seven of these locations were provided by the telephone company and five were commercially sponsored. It is quite interesting to note that all these services were originally commercially sponsored when first installed.

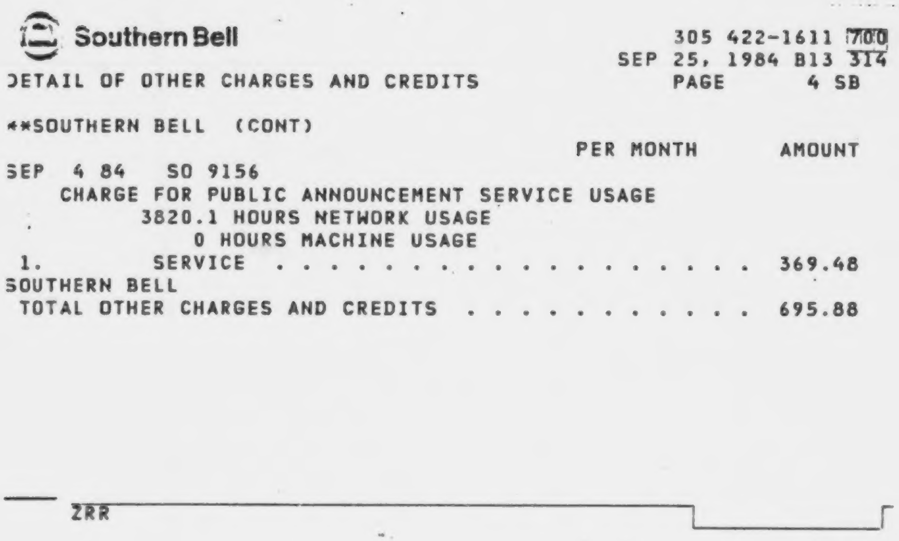
We experienced this similar phenomena in Arkansas where General Telephone Company is also trying to impose PBX rates. Shortly after the increased rate imposed in Arkansas, a commercial sponsor in Pocahontas, Arkansas cancelled time-temperature service as of January 1, 1984. The reasons stated by the sponsor for cancelling the service was the increased rate by General Telephone Southwest. Additionally, in Jacksonville and Dewitt, Arkansas, commercial sponsors ordered time-weather-temperature services and then cancelled their orders after being advised of the change of the line charges by General Telephone of the Southwest. These cancellations and the reasons for cancellations indicate an actual attrition of service to the public.

Q Are there other reasons why your opinion is that the current rate is inappropriate?

A Yes. Currently, General Telephone Company of Florida will receive less revenue contribution from the service while at the same time discourage customers from improving service when there is no increased cost to General Telephone Company of Florida. This is the basis which I respectfully believe that the public announcement tariff must be modified to assign a more appropriate rate. Simply, I am confident that the appropriate rate to be assigned to the public announcement system should be no more than a B-1 rate and should probably be somewhat less than that. The result would be more revenue to the Telephone Company with no increased cost while the public would be served by having more public announcement services available for its use.

Again, the PBX rate is inappropriate for public service announcement operations because the calling characteristics are not the same as a PBX due to a non-conflicting busy hour, public announcement service operations do not originate traffic, public announcement service operations' off-peak calling does not increase the basic handling requirements of the network, and if the PBX rate is allowed to stand, it will result in less revenue contribution to the General Telephone Company of Florida, not more; and less service to the public.

EXHIBIT H



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Southern Bell                                  305 422-1611 700
                                           SEP 25, 1984 B13 314
DETAIL OF OTHER CHARGES AND CREDITS            PAGE       4 SB

**SOUTHERN BELL  (CONT)
                                         PER MONTH      AMOUNT
SEP  4 84   SO 9156
    CHARGE FOR PUBLIC ANNOUNCEMENT SERVICE USAGE
          3820.1 HOURS NETWORK USAGE
                0 HOURS MACHINE USAGE
 1.        SERVICE . . . . . . . . . . . . . . . . . . . 369.48
SOUTHERN BELL
 TOTAL OTHER CHARGES AND CREDITS . . . . . . . . . . . . 695.88

      ZRR
```

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Southern Bell                                          904 372-1411 542
                                                   SEP 26, 1984 B54 056
DETAIL OF OTHER CHARGES AND CREDITS                    PAGE       3 SB

**SOUTHERN BELL  (CONT)
                                           PER MONTH      AMOUNT
SEP  4 84   SO 9156
    CHARGE FOR PUBLIC ANNOUNCEMENT SERVICE USAGE
           938.0 HOURS NETWORK USAGE
              0 HOURS MACHINE USAGE
 1.        SERVICE . . . . . . . . . . . . . . . . . . . .  119.13
SOUTHERN BELL
 TOTAL OTHER CHARGES AND CREDITS . . . . . . . . . . . . .  229.13

     ZRR
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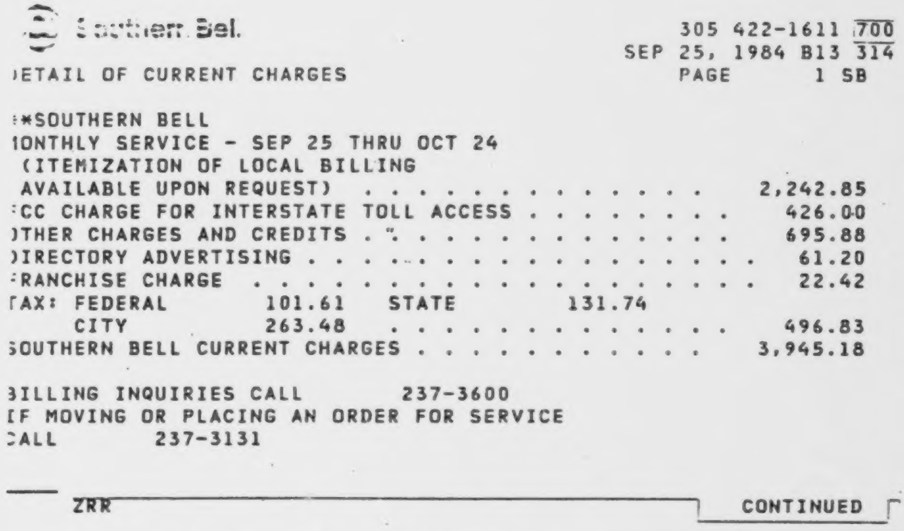
EXHIBIT I



Southern Bell

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                                              305 422-1611 700
                                          SEP 25, 1984 B13 314
)ETAIL OF CURRENT CHARGES                     PAGE       1 SB

:*SOUTHERN BELL
1ONTHLY SERVICE - SEP 25 THRU OCT 24
 (ITEMIZATION OF LOCAL BILLING
 AVAILABLE UPON REQUEST) . . . . . . . . . . . . . .    2,242.85
:CC CHARGE FOR INTERSTATE TOLL ACCESS . . . . . . . .     426.00
)THER CHARGES AND CREDITS . . . . . . . . . . . . . .     695.88
)IRECTORY ADVERTISING . . . . . . . . . . . . . . . . .    61.20
:RANCHISE CHARGE . . . . . . . . . . . . . . . . . . .    22.42
[AX: FEDERAL       101.61    STATE          131.74
     CITY          263.48   . . . . . . . . . . . . .     496.83
SOUTHERN BELL CURRENT CHARGES . . . . . . . . . . .     3,945.18

3ILLING INQUIRIES CALL        237-3600
[F MOVING OR PLACING AN ORDER FOR SERVICE
:ALL        237-3131

    ZRR                                          CONTINUED
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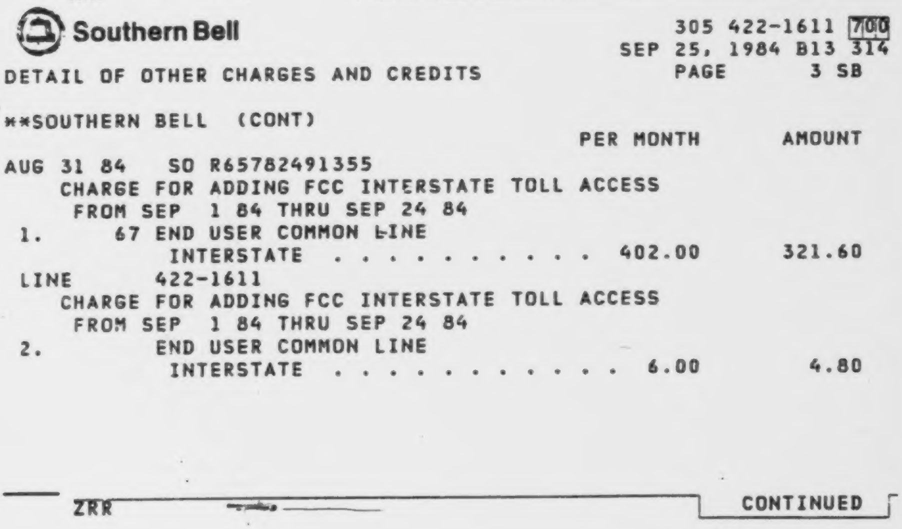

Southern Bell

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                                              305 422-1611 700
                                          SEP 25, 1984 B13 314
DETAIL OF OTHER CHARGES AND CREDITS           PAGE       3 SB

**SOUTHERN BELL  (CONT)
                                             PER MONTH      AMOUNT
AUG 31 84    SO R65782491355
     CHARGE FOR ADDING FCC INTERSTATE TOLL ACCESS
      FROM SEP  1 84 THRU SEP 24 84
 1.      67 END USER COMMON LINE
             INTERSTATE  . . . . . . . . . .  402.00        321.60
 LINE       422-1611
     CHARGE FOR ADDING FCC INTERSTATE TOLL ACCESS
      FROM SEP  1 84 THRU SEP 24 84
 2.         END USER COMMON LINE
             INTERSTATE  . . . . . . . . . . .  6.00          4.80

    ZRR                                          CONTINUED
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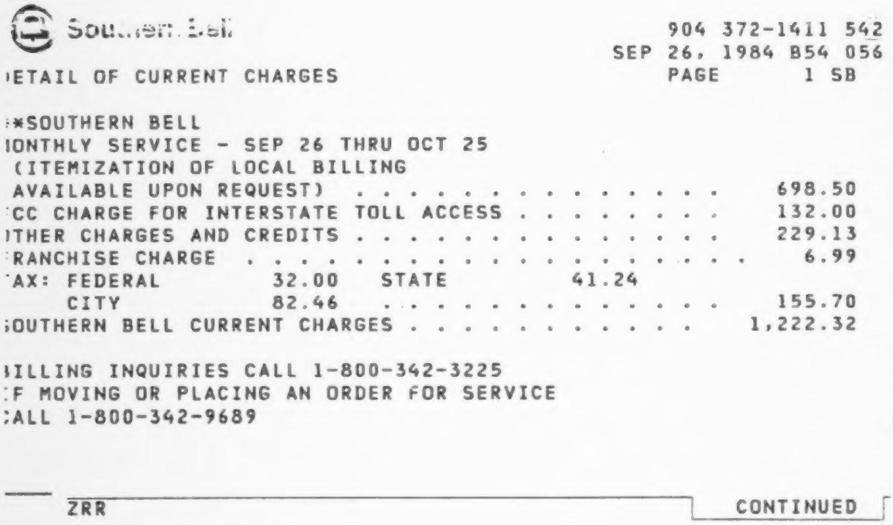

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Southern Bell                                       904 372-1411 542
                                                SEP 26, 1984 B54 056
ETAIL OF CURRENT CHARGES                            PAGE        1 SB

*SOUTHERN BELL
ONTHLY SERVICE - SEP 26 THRU OCT 25
(ITEMIZATION OF LOCAL BILLING
AVAILABLE UPON REQUEST) . . . . . . . . . . . . . . . . .     698.50
CC CHARGE FOR INTERSTATE TOLL ACCESS . . . . . . . . .        132.00
THER CHARGES AND CREDITS . . . . . . . . . . . . . . . .      229.13
RANCHISE CHARGE . . . . . . . . . . . . . . . . . . . . . .     6.99
AX: FEDERAL         32.00   STATE          41.24
     CITY           82.46   . . . . . . . . . . . . . .       155.70
OUTHERN BELL CURRENT CHARGES . . . . . . . . . . . .        1,222.32

ILLING INQUIRIES CALL 1-800-342-3225
F MOVING OR PLACING AN ORDER FOR SERVICE
ALL 1-800-342-9689


    ZRR                                                  CONTINUED
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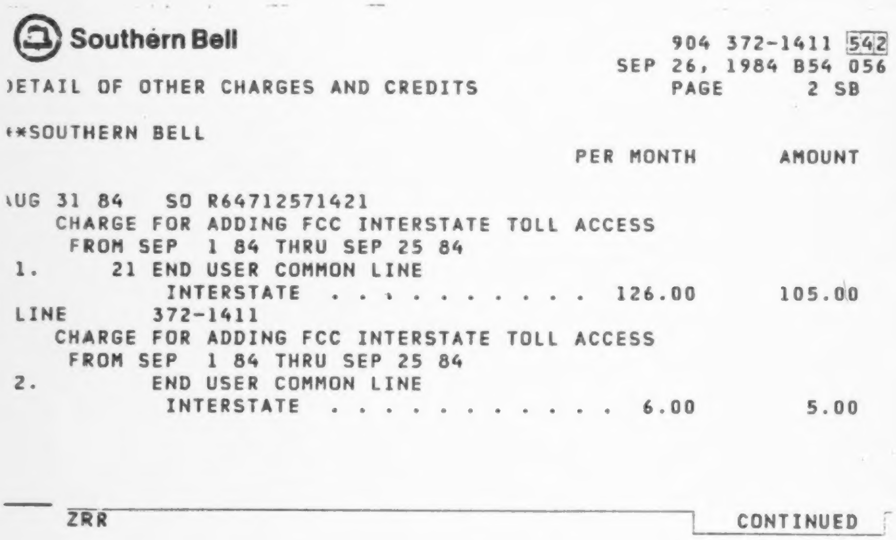

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Southern Bell                                       904 372-1411 542
                                                SEP 26, 1984 B54 056
ETAIL OF OTHER CHARGES AND CREDITS                  PAGE        2 SB

*SOUTHERN BELL
                                          PER MONTH        AMOUNT

UG 31 84   SO R64712571421
    CHARGE FOR ADDING FCC INTERSTATE TOLL ACCESS
      FROM SEP  1 84 THRU SEP 25 84
 1.      21 END USER COMMON LINE
            INTERSTATE . . . . . . . . . . . 126.00        105.00
 LINE       372-1411
    CHARGE FOR ADDING FCC INTERSTATE TOLL ACCESS
      FROM SEP  1 84 THRU SEP 25 84
 2.         END USER COMMON LINE
            INTERSTATE . . . . . . . . . . .   6.00          5.00


    ZRR                                                  CONTINUED
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EXHIBIT J

TIME, WEATHER, TEMPERATURE ADVERTISING

1100 Florida Avenue • Tampa, Florida 33602 • Phone (813) 225-1200

Orlando

These prices are based on approximately 1,700,000 calls per month

TIME AVAIL	APPROX. CALLS PER:			COST PER MONTH/CONTRACT FOR:		
	DAY	WEEK	4 WEEK	3 MONTHS	6 MONTHS*	YEAR*
1/12	5,100	35,700	142,800	$ 825.00	$ 780.00	$ 760.00
2/12	10,200	71,400	285,600	$1,485.00	$1,405.00	$1,365.00
3/12	15,300	107,100	428,400	$2,160.00	$2,045.00	$1,990.00
6/12	30,600	214,200	856,800	$4,207.00	$3,980.00	$3,875.00
9/12	45,900	321,350	1,285,200	$6,160.00	$5,830.00	$5,680.00
EXC	61,200	428,400	1,713,600	$8,070.00	$7,630.00	$7,430.00

*6 Month contract-2% discount
(2 weeks additional)

*Year Contract-4% Discount
(4 weeks additional)

- 40 YEARS OF TELEPHONE RECOGNITION
- CALLER INITIATED SERVICE
- UNDIVIDED ATTENTION OF CALLER WITH QUALITY MESSAGES
- OPTION OF SOLE SPONSORSHIP
- COST EFFECTIVE EXPOSURE 24 HOURS A DAY

3-84

A BETTER WAY TO ADVERTISE
TWTA

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

1100 Florida Avenue • Tampa, Florida 33602 • Phone (813) 225 1200

GAINESVILLE

THESE PRICES ARE BASED ON APPROXIMATELY 500,000 CALLS PER MONTH

Time Avail.	Approx. Calls Per:			Cost per Month/Contract For:		
	DAY	WEEK	4 WEEKS	3 MONTHS	6 MONTHS*	YEAR*
1/4	4,465	31,255	125,020	$ 563.00	$ 551.00	$ 539.00
2/4	8,930	62,510	250,004	$ 957.00	$ 936.00	$ 915.00
3/4	13,395	93,765	375,060	$1,405.00	$1,375.00	$1,344.00
EXC	17,860	125,020	500,080	$1,831.00	$1,792.00	$1,750.00

BONUS

* 6 Month Contract-2% Discount
(2 Weeks Additional)

* Year Contract-4% Discount
(4 Weeks Additional)

- 40 YEARS OF TELEPHONE RECOGNITION
- CALLER INITIATED SERVICE
- UNDEVIDED ATTENTION OF CALLER WITH QUALITY MESSAGES
- OPTION OF SOLE SPONSORSHIP
- COST EFFECTIVE EXPOSURE 24 HOURS PER DAY

3-84

A BETTER WAY TO ADVERTISE
TWTA

Mr. WYDEN. Mr. Carver.

TESTIMONY OF KEN CARVER, VICE PRESIDENT, SOUTHEASTERN TELECOM, INC.

Mr. CARVER. I will address the basic termination charge problem, another byproduct of the deregulation and divestiture. I would like to give opening information for those who may not be as familiar with this problem. I am vice president of Southern Telecom, which is a national based company that installs and services business telephone systems throughout Tennessee. We are in direct competition with AT&T, BellSouth and all the other small companies like ourselves who are out selling telephone equipment.

We have about 90 employees and last year we had revenues of $6 million. By any definition we are a small business concern. We represent about 1,500 other businesses within Tennessee. I would like to note that I am also a member of the Northern Telecommunications Association, the Nation's oldest and largest organization representing independent manufacturers, suppliers and distributors of competitive telecommunications equipment.

Many of the ideas and concerns I will express today are reflective of the industry as a whole and the organization. Our company, as well as our customers, have truly benefited from the series of decisions by Federal regulators, legislators and judges in the past 15 years. These rulings have opened an industry once totally controlled by a single company, AT&T, to more widespread competition. To the extent that the AT&T divestiture and the simultaneous deregulation of the telephone equipment business have ended that monopoly, the policies deserve our praise. Already, prices for telephone equipment have come down, just as the quality and choice of products have gone up for the business customer.

But as your task force has been learning firsthand for the past several months, divestiture and deregulation have also created some adverse consequences. I am here to discuss what has been one of the major problems for my firm and some 2,000 others like us nationwide, and that is AT&T's discriminatory imposition of so-called termination liability penalties on captive and confused users. What is happening is that AT&T is taking advantage of the massive customer confusion generated by divestiture and deregulation to gain an unfair marketplace advantage.

Unfortunately, Federal regulators are letting them get away with it. In the most basic terms, those penalties penalize small- and medium-sized business users of telecommunications equipment by artificially restricting their choices. They penalize small and medium-sized vendors of that equipment by locking them out of what the FCC estimates is a $10 billion market.

The penalties help perpetuate AT&T's historic monopoly control of equipment markets. And they fly in the face of the court's divestiture, the FCC's computer II deregulation policy and State contract law.

The situation that exists is as follows: On January 1, 1984, all the customer premises equipment [CPE] originally installed by the local Bell operating companies, in our example, BellSouth, was transferred to AT&T, under terms of the antitrust settlement. Included in that transfer was a sizable amount of CPE that small- and medium-sized businesses had been leasing from their local Bell operating company in the amount of $10 billion. The lease prices had been established by State regulation, the lease prices that were established and that the end user had established and contracted for in the past now transferred to AT&T, but when they were established they were done so under the discretion of the Tennessee Public Service Commission. So they were controlled, the rates were published, the local small business entered into a contract or a service agreement with the Bell operating company. But when the court ordered this equipment transferred from the local Bell operating company to AT&T, the FCC simultaneously deregulated or detariffed that equipment. Thus, on that date a small- and medium-sized customer, who had originally signed a service agreement with a local BOC to lease equipment under the safeguards of State regulation, found that ownership of that equipment had been transferred to an entirely new entity, AT&T. Simultaneously, the protection of State regulation had been removed.

Those events set the stage for AT&T's discriminatory marketing scheme. Many of the long-term contracts for the old Bell equipment included stiff, multithousand-dollar penalties for the early termination of these contracts. For the past 10 months, AT&T has been using those clauses as clubs to intimidate users and stifle competitors—by threatening to impose the termination penalties on customers who are considering the purchase of new, non-AT&T equipment, but waiving those penalties for customers who merely trade up to newer AT&T equipment.

There are several major problems with these practices. First, the FCC never said AT&T could use the threat of termination penalties to browbeat users into a take AT&T or leave AT&T choice; that is, either retain the long-term leases on outmoded Bell system equipment or migrate to newer AT&T equipment and without discriminatory penalties.

To the contrary, the FCC—and Judge Greene, for that matter—have been trying to stimulate choice, not limit options. For example, a recent situation involved a large company in Memphis, TN, who, after evaluating several different telephone systems, decided on a non-AT&T product costing about $100,000. At that juncture AT&T then informed this customer that if they went with anyone other than AT&T, a $30,000 termination penalty would apply.

Mr. WYDEN. If you could summarize the rest of your key concerns——

Mr. CARVER. The second major point relates to what is a service agreement. As I mentioned earlier when the service agreement was worked out in years past between the customer it was governed by the PSC for control. When divestiture occurred and when $10 billion of equipment transferred hands from the Bell operating companies to AT&T, they assumed these contracts, but there was no provision in that contract for them to do so, so that those contracts really are null and void as far as discriminatory applying penalties.

It is essentially our position that the FCC should have been made to either have these penalties across the board abolished or enforce them, but now the intimidation factor for companies like ourselves, we call on a Brookmeade Hardware, who finds out that is fine as long as he stays with AT&T. He won't have a penalty invoked. But if he tries to buy a competitive piece of equipment, he is going to have to pay that penalty. So we are just asking that that penalty either be done away with or made applicable in every single situation.

In summary, in that sense, then, termination penalties are only the most graphic symbol of a larger problem occurring throughout the postdivestiture telecommunications industry. Wherever one turns, the policies being implemented share a common thread: They are encouraging a battle of the telecommunications titans. Star Wars clashes among such companies as AT&T, IBM, the BOC's and a handful of foreign multinationals hardly will leave much room for small- and medium-sized businesses such as mine in the future.

I need not educate members of this committee about the vital contributions of small business to the American economy in terms of innovation, jobs creation, and entrepreneurship. But on behalf of the hundreds of small business telecommunications equipment vendors being denied a full opportunity to compete by AT&T and on behalf of the thousands of small- and medium-sized businesses being illegally intimidated by AT&T, I can strongly urge you to take all feasible steps to force the FCC to resolve the termination penalty problem.

Otherwise, the real promise of divestiture and deregulation; that is, increased competition among suppliers leading to increased consumer choice, will be frustrated.

Mr. WYDEN. Thank you.

[Mr. Carver's prepared statement follows:]

PREPARED STATEMENT OF KEN CARVER, VICE PRESIDENT, SOUTHEASTERN TELECOM, INC.

My name is Ken Carver. I am vice president of Southeastern Telecom, a Nashville-based company that markets, installs and services business telephone systems throughout Tennessee—in competition with AT&T, with BellSouth, with smaller telephone companies, and with other independent, non-phone company vendors such as my own firm. Southeastern Telecom has 90 employees and last year had revenues of about $6 million. By any definition, we are a small business. We serve approximately 1,500 small and large businesses and institutions such as Middle Tennessee State University, Tandem Computers, American Express, Nashville Memorial Hospital, just to name a few.

I would also like to note that my company is proud to be a member of the North American Telecommunications Association, the nation's oldest and largest organization representing independent manufacturers, suppliers and distributors of competitive telecommunications equipment. Many of the things I would like to tell the committee today reflect the concerns of NATA's nearly 700 members, the majority of which are small businesses like my own.

Our company—as well as our customers—have truly benefited from the series of decisions by federal regulators, legislators and judges in the past 15 years. These rulings have opened an industry once totally controlled by a single company, AT&T, to more widespread competition. To the extent that the AT&T divestiture and the simultaneous deregulation of the telephone equipment business have ended that monopoly, the policies deserve our praise. Already, prices for telephone equipment have come down, just as the quality and choice of products have gone up for the business' customers.

But as your Task Force has been learning first-hand for the past several months, divestiture and deregulation have also created some adverse consequences. I am here to discuss what has been one of the major problems for my firm—AT&T's discriminatory imposition of so-called termination liability penalties on captive and confused users. What's happening is that AT&T is taking advantage of the massive customer confusion generated by divestiture and deregulation to gain an unfair marketplace advantage. Unfortunately, federal regulators are letting them get away with it. In the most basic terms, those penalties penalize small- and medium-sized business users of telecommunications equipment by artificially restricting their choices. They penalize small- and medium-sized vendors of that equipment by locking them out of what the FCC estimates is a $10 billion market.

The penalties help perpetuate AT&T's historic monopoly control of equipment markets. And they fly in the face of the court's divestiture, the FCC's Computer II deregulation policy and state contract law.

The situation that exists is as follows: On January 1, 1984, all the customer premises equipment (CPE) originally installed by the local Bell Operating Companies (BOCs) was transferred to AT&T, under terms of the antitrust settlement. Included in that transfer was a sizable amount of CPE that small- and medium-sized businesses had been leasing from their local Bell Operating Company in the amount of $10 billion. The lease prices had been established by state regulation, but when the court ordered the CPE transferred from the local BOC to AT&T, the FCC simultaneously deregulated—or detariffed—that equipment.

Thus, suddenly on January 1, 1984, a small- and medium-sized customer, who had originally signed a service agreement with a local BOC to lease equipment under the safeguards of state regulation, found that ownership of that equipment had been transferred to an entirely new entity, AT&T. Simultaneously, the protection of state regulation had been removed.

Those events set the stage for AT&T's discriminatory marketing scheme. Many of the long-term contracts for the old Bell equipment included stiff, multi-thousand-dollar penalties for the early termination of these contracts. And for the past 10 months, AT&T has been using those clauses as clubs to intimidate users and stifle competitors—by threatening to impose the termination penalties on customers who are considering the purchase or new, non-AT&T equipment, but waiving those penalties for customers who merely trade up to newer AT&T equipment.

There are several major problems with these practices. First, the FCC never said AT&T could use the threat of termination penalties to browbeat users into a "take-AT&T-or-leave-AT&T" choice—that is, either retain the long-term leases on outmoded Bell System equipment or migrate to newer AT&T equipment and without discriminatory penalties. To the contrary, the FCC—and Judge Greene, for that matter—have been trying to stimulate choice, not limit options. For example, a recent situation involved a large company in Memphis, Tennessee who, after evaluating several different telephone systems, decided on a non-AT&T product costing about $100,000. AT&T then informed this customer that if they went with anyone other than AT&T, a $30,000 termination penalty would apply.

Second, in deregulating embedded CPE, the FCC never said the customer should remain bound to one entity (AT&T) by fixed-term contracts they signed with another company (their local BOC). In fact, those long-term contracts entered into with the BOCs were invalidated on January 1, 1984, when the equipment was transferred from the BOCs and removed from state regulation. The customers never consented to those transfers nor sought the deregulation. Indeed, it was AT&T that sought the deregulation simultaneous with divestiture. That deregulation was opposed by independent vendors and many users. Some foresaw that customers would become the unwitting prisoner of events over which they had no control.

Third, the FCC never said AT&T could use its inherited base of Bell System CPE to gain an unfair, anti-competitive advantage in CPE markets by effectively foreclosing independent vendors from competing for about $10 billion worth of business. To the contrary, both FCC policy and the AT&T divestiture were designed to enhance competition and eliminate monopoly power, not merely transfer monopoly control from the BOCs to AT&T.

While the FCC neither authorized nor intended to foster such customer intimidation and anti-competitive behavior, unfortunately it is doing nothing to prevent such practices. In August, the North American Telecommunications Association (NATA), my trade association, asked the FCC to ban the imposition of termination charges altogether or, at a minimum, to prevent their discriminatory application. So far, the FCC has not acted on NATA's request. Nor has it shown any inclination to do so—despite the urgency of the situation. Instead, the Commission has been preoccupied with finding ways of lifting anti-monopolistic restrictions on both AT&T and the divested BOCs.

The Commission is dealing with abstract regulatory issues instead of facing the consequences of its actions—or inaction—on the day-to-day, nuts-and-bolts business practices that face small businesses every day.

SUMMARY

In that sense, then, termination penalties are only the most graphic symbol of a larger problem occurring throughout the post-divestiture telecommunications industry. Wherever one turns, the policies being implemented share a common thread: they're encouraging a battle of the telecommunications titans. Star Wars clashes among such companies as AT&T, IBM, the BOCs and a handful of foreign multinationals hardly will leave much room for small-and medium-sized businesses, such as mine, in the future.

I need not educate members of this Committee about the vital contributions of small business to the American economy—in terms of innovation, jobs creation and entrepreneurship. But on behalf of the hundreds of small business telecommunications equipment vendors being denied a full opportunity to compete by AT&T and on behalf of the thousands of small- and medium-sized businesses being illegally intimidated by AT&T, I can strongly urge you to take all feasible steps to force the FCC to resolve the termination penalty problem. Otherwise, the real promise of divestiture and deregulation—that is, increased competition among suppliers leading to increased consumer choice—will be frustrated. Rates and an industry once dominated by a single regulated monopoly will instead become one controlled by a handful of unregulated giant companies.

I appreciate the chance to have participated in your hearing. And I will be glad to answer any questions.

Mr. WYDEN. Mr. Cooper.

Mr. COOPER. I appreciate the excellent testimony of this panel and your sticking with us after the lengthy questioning of previous panels. I would like to show my pride and honor in having Jerry Cooper as a constituent. He comes from Smartt Station; and Smartt Station doesn't take too long to drive through. Smartt Station, though, has produced a leader like Jerry Cooper, who is strong statewide, former past president of the Jaycees, statewide Businessman of the Year. He is a real powerhouse.

Bill Nourse, although not lucky enough to live in my district, is from Nashville, and it doesn't take too long to drive past Brookmeade Hardware Store, either. It has produced a powerhouse like Bill Nourse, who not only has statewide contacts, but nationwide contacts.

We are fortunate to have the testimony of these two folks and the testimony of folks like Mr. Carver and Mr. Clark, who have presented almost unbelievable horror stories of regulation and deregulation gone awry. You, gentlemen, are folks who were lost in the cracks. The FCC forgot about you. In a sense it is impossible for any agency to take care of every agency, but think how many time networks there are nationwide.

Think how many termination clauses there are out there in existence. You don't represent isolated horror stories, you represent major horror stories that we would like to work on. I would like to direct most of my questions to Mr. Clark and Mr. Carver.

Have you taken legal steps to correct your situations? Have you engaged counsel or is it possible to file a lawsuit at this point to say the FCC has misconstrued the Computer II?

Mr. CARVER. In my problem, NADA, one of the groups I represent on a national basis, does provide us with legal counsel. The example I used with the $100,000 purchase and it got a $30,000 penalty put on, if that customer is willing to fight AT&T there is no problem. We will put them in contact with our representatives. We found AT&T will drop it, they will not pursue that as far as trying to impose that penalty, which is fine, we have won that battle.

But when that businessman goes to the next Rotary Club meeting or Jaycees meeting, he says you won't believe what I went through looking at your telephone system. That guy doesn't look for competitive bids. I can't get into the business because he is afraid of the legal hassle of having to deal with AT&T, which is far greater than a little intimidating.

Mr. JIM COOPER. Mr. Clark, have you engaged counsel?

Mr. CLARK. We are sort of battle scarred at the moment. We finished a lengthy rate case with General Telephone, which we won. This has been our first attempt to address this question because it was just put on the phone bill. I think the only people we could sue would be the FCC, and I think that would be rather expensive for a sole proprietor to do.

Mr. JIM COOPER. Is there a nationwide group of companies?

Mr. CLARK. There is a company from which I lease equipment, the Audichron Co., and they are putting together an effort and there is a loose organization of individuals who market time-of-day services in cities such as New Orleans and Nashville and other cities throughout the country.

Mr. JIM COOPER. It seems in both your cases that the best solution would be legislative. I appreciate your coming to us and presenting your concerns.

That is all the questions I have, Mr. Chairman.

Mr. WYDEN. Gentlemen, I think your panel is a capper for the program because it reinforces everything we have heard over the past 3½ hours. The State senator and Mr. Nourse both have really highlighted the disastrous consequences of the policies as they stand today. You two take us in a slightly different dimension talking about businesspersons who see this never-never land horror show going on and on as it relates to FCC policies.

I guess the question I would have to you is that when this all began, and I sit on the Energy and Commerce Committee which has jurisdiction over all telecommunications issues in addition to the Small Business Committee, a lot of us went out around the country and in our own home communities and talked to small businesses about this issue and said we see a real disaster in the making here with the FCC's policies, and we had a lot of difficulty at that time getting small businesses really interested in this issue.

They said, "Well, we know it is coming but, boy, it doesn't look like that much money to us and we are not really sure if this is going to have great ramifications in our lives. I gather from the very strong testimony that you have made here this morning that things are quite different today, that the message has really begun to be felt, that these policies are not just abstract, far removed things, but that they are having a direct effect on the businesses of Tennessee and the businesses of this country. And it is not a positive effect, it is a bad set of policies that have been put in motion and they need to be changed. Is that essentially where all of you are today?

Mr. JERRY COOPER. I think Mr. Nourse hit the nail on the head when he said something to the effect that the small businesses left, after going through a period of decline of the economy, the people that were left in small businesses had to watch their costs and now all of a sudden you are seeing another cost, another overhead factor that again reduces profits, again that takes away from paying our interest at the banks, something else that enters into us staying in small business.

I think that more people in small business have got together and said we have got to band together and we have got to be more concerned about the political issues, about the issues that affect our small businesses and our overhead costs.

Mr. CLARK. The implication in your question is, "Where the hell were you?" We were aware and somewhat misinformed, partly our fault, but we had petitioned for a decision, in our particular case, where these lines would be assessed this and there was a vacillation, yes, no, yes, and finally in September, yes. So this is the first recourse that we have had. So in essence, we do share your frustration saying it may be a little bit late, but a little bit late is probably better than never.

Mr. WYDEN. Absolutely. There is no question that the fact that people are now ready to get directly involved in shaping these policies to allocate the costs is valuable, and Mr. Cooper said this is probably going to be a consumer pocketbook issue of the next Congress. As far as I can tell the fastest rising cost for a small American businesses today are medical bills that they have to pay for their employees, that they pay jointly, and communications costs. I think that we are beyond the days when this was something that people just debated a little bit and didn't get directly involved.

Your particular panel has really brought it home and brought it home very graphically, and we thank you all for waiting through what has been a long hearing as these kinds of things go. We appreciate the help and look forward to working with you in the future.

Mr. Cooper, anything you would like to add?

Mr. COOPER. Just again thank you. We appreciate it.

[Whereupon, at 1:10 p.m., the task force adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

Appendix A.—Forum on the Impact of Telephone Charges on Small Businfsses, September 14, 1984, Green Bay City Council Chambers

CONGRESSMAN TOBY ROTH
Forum [redacted] On The Impact Of Telephone Charges On Small Businesses
September 14, 1984
Green Bay City Council Chambers

WITNESSES Panel 1 10:30 AM

Mr. Lynn Meyer, American Telephone and Telegraph Company

Mr. Ray J. Riordan Jr., Wisconsin State Telephone Association

Mr. Dan Griffith, Wisconsin Bell

Panel 2

Local representatives of small business

Panel 3

Ms. Georgia Thomas, Wisconsin Women Entrepeneurs

Mr. Bill Smith, National Federation of Independent Business

Panel 4

Mr. Nes Flores, Wisconsin Public Service Commission

Accepting testimony with Congressman Roth will be The Honorable Vin Weber, Member of Congress from Minnesota's Second Congressional District

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September 19, 1984

Congressmen Toby Roth
% House of Representatives
Washington D.C

Dear Congressmen:

Many thanks for the opportunity to appear at this hearing in Green Bay, reference to telephone access charges.

I believe our company would be representative of a small distributorship. We currently employee 85 people.

We distribute beauty supplies to appoximately 3,000 salons within the state of Wisconsin. 95% of our business is conducted within the state, and about 90% of our phone bill charges are within the state of Wisconsin.

We have 24 lines, in 5 locations. I believe these access charges will result in an unfair assement of cost to a company like ours.

We are a service oriented company and our growth is depended on telephone services. During the last 3 years, we have invested over $45,000 in telephone equipment, to cope with the high rate of increase of the rental fee's charged by the Bell Corporation for existing equipment within our building.

Much of this equipment had been here for many years, it was still functional, I am certain that the Bell Corporation had written it off, and to us, it represented no cost basis to them, but a considerable income structure.

I believe much of these additional costs, that the Bell Corporations are requesting, could have been under written by a more realistic and objective approach to the income potential from rental equipment on sight and on line, by the Bell Corporation.

It irratates me, that our company and other small companies are placed in the position of underwriting costs, based on what appears to be poor management decisions.

Telephone costs from our company, for strictly phone services, increased from $65,000 in 1982, to $74,000 in 1983 to approximately $87,000 in 1984.

All of this without any change in our basic operating system or additional services purchased. We are a typical small business who has looked for to help employee growing numbers of people during the late a 1900's.

Our employment base has increased from 50 people to 85 people in the last 4 years. We would like to continue to grow. We instantly absorb additional costs on phone service. We have spent capitol monies to reduce rental fee's we have strongly monitored our phone situation, we have responded in every way that we can with internal management to control phone costs.

We are not a large inter state phone user. A reduction in inter state long distance phone calls will be of no practical assistance to our state distributor net.

Ther per line access charges as initially assessed, without consideration of already projected future rate increases, effectively double our inter state long distance costs.

Respectfully,

Fred H. Jaeger Jr.
President

ch

SUMMARY

On Friday, September 14, 1984, Congressman Toby Roth conducted a fact finding forum in Green Bay, Wisconsin on the impact telephone access charges are having on small businesses in northeast Wisconsin. Congressman Roth delivered opening remarks (attached) stating his concern over the effects of access charges.

Accepting testimony with Congressman Roth was The Honorable Vin Weber, Member of Congress from Minnesota's Second Congressional District. Mr. Weber noted that there was a great deal of confusion in Congress on this issue. He stated his satisfaction that this issue had been brought to a rural, upper Midwestern area to get local views on this national subject.

PANEL I

This panel consisted of representatives of phone companies serving Wisconsin. Mr. Ray Riordan, Executive Vice President of the Wiscosnin State Telephone Association, an organization representing Wisconsin's independent, local carriers, declared (testimony attached) the term "access charge" to be a misnomer. He explained the necessity of the access charge to recoup nontraffic sensitive costs.

This opinion was shared by Mr. Dan Griffith, Assistant Vice President of Wisconsin Bell, local carrier for two-thirds of Wisconsin's telephone business. Mr. Griffith declared (testimony attached) Wisconsin Bell's commitment to universal service and stated that the access charge must be looked on as a recomputation (where some will pay more and others will pay less), not an increase, in telephone costs.

Mr. Lynn Meyer, Assistant Vice President of Wisconsin AT&T Long Distance, informed the audience (testimony attached) that his company welcomed competition. However, he shared his concern for bypass operations that he says are practiced by 40 to 50 companies in Wisconsin. He also stated that AT&T pays its own access charge to the local carrier.

PANEL II

This panel consisted of a number of small business representatives from northeast Wisconsin, who spoke from the floor sharing their concerns and questions. Highlights from this testimony includes: Mr. Fritz Jaeger of Aerial Company of Marinette, complained that his phone bill was up 20% and wanted to know where that money was going; Mr. John Herner of Appleton understood the need for funding to replace the internal company subsidy, but questioned the use of access charges; Mr. Roland Murphy, of Roland Murphy Construction of Green Bay, viewed the breakup of AT&T as the root cause of the problem and also questioned the phone company's efficiency in disposing of capital equipment; Mr. Hugh Begy of Appleton spoke on complications which have arisen concerning computer access through phone lines since the charge was instituted.

Further highlights include: Mr. Mike Sullivan of Spring-Green Lawn Care of De Pere believed he was being charged more than his fair share. He was also of the opinion that new technology should be lowering, not raising, his phone bill. Mr. Lewis Konop, of Konop Vending Machines, Green Bay, emphasized (testimony attached) the confusion that currently surrounds each phone bill. Few even know what part of each bill is for access charges. He also spoke on the necessity of the telephone for the small businessman. As a single line telephone customer, Mr. Marvin Roth, owner of Dave's Burger Shanty in Menasha, spoke (testimony attached) of his concern that the present access charges are only the tip of the iceberg.

The turnout of these and other local businessmen and women with similar concerns clearly points to the conclusion that the small business person is clearly affected by these charges.

PANEL III

Due to a change in schedule, Mr. Nes Flores, Chairman of the Wisconsin Public Service Commission, was called upon to make his statement prior to the business organization representatives. Mr. Flores commented on Wisconsin's commitment to the small businessman. He also declared that farmers would be affected by the breakup of AT&T. He stated his opposition to flat rate end user fee. He informed the audience that the Wisconsin Public Service Commission had appealed the Federal Communications Commission access charge to the Supreme Court. He also described the Wisconsin intrastate plan which includes no end user charges. He also dealt with the changing method of depreciation, stating that the FCC had made it easier to recover these costs.

PANEL IV

The final panel included two representatives from Wisconsin business organizations. Ms. Georgia Thomas, Vice President of Cardinal Express Corporation in Racine, is Secretary of the Wisconsin Women Entrepeneurs. Ms. Thomas stated (testimony attached) that it was obvious that costs have steadily gone up since 1981 and although the initial monthly access charges are small, they will undoubtly steadily increase. Another concern which she shared was that the majority of small businesses are calling long distance within Wisconsin rather than interstate.

Mr. Bill Smith, Director of Government Relations for the Wisconsin chapter of the National Federation of Independent Business, stated his belief (testimony attached) that access charges have a severe negative impact. Telephone costs were ranked number 6 by Wisconsin NFIB members in terms of priority out of a possible 72 small business problems. Over 60% of small businesses have more than one phone line. Nearly two-thirds of the members reported that less than half of their phone bills were long-distance charges. He emphasized the need to rescind access charges so that they can be studied more completely.

In concluding, Congressmen Roth and Weber asked a number of questions of the witnesses and stated their intention to share what was learned at the forum with their colleagues on the Telephone Task Force in Washington.

Testimony by Marvin Roth'
Owner - Dave's Burger Shanty
Menasha, Wis.

Before Congressman Roth's
Special Hearing on Telephone Access Charges
Sept. 14, 1984
Green Bay, Wis.

My name is Marvin Roth and I'm the owner of a small fast food business which employes four full time and about a dozen part time employees.

I'm a single line telephone customer, and while I'm not yet in the elite ranks of those who are being charged a long distance access charge, I expect I will be by this time next year.

Long distance is a small but necessary part of my business. The problem with a fixed access charge is that it puts an excessive premium on the limited user. I reviewed my L. D. billing for this year and found that a $6.00 access charge would more than double my present long distance billing.

Since the break-up of AT&T, my monthly service charge has increased by 42%. ($20.60 to $29.40) Since the government has decided that it is not right to subsidize local service through L. D. revenues, wouldn't it also be wrong to subsidize L. D. rates by increasing the local service charge?

In conclusion, I am not against the proposed access charge because of the financial problems it could cause. I'm against the access charge because it's wrong - wrong to place an unfair fixed charge which doesn't reflect service to the user - and wrong bee cause it subsidizes L. D. rates by arbitrarily increasing local billing.

OPENING STATEMENT
CONGRESSMAN TOBY ROTH
HEARING ON THE IMPACT OF TELEPHONE ACCESS CHARGES ON SMALL BUSINESS
SEPTEMBER 14, 1984

I AM PLEASED TO WELCOME YOU ALL HERE TODAY FOR A SPECIAL HEARING ON THE IMPACT OF TELEPHONE ACCESS CHARGES ON SMALL BUSINESSES. TODAY'S HEARING WILL FOCUS ON ESTABLISHING SOME HARD FACTS IN AN AREA WHICH HAS GROWN INCREASINGLY CONFUSING SINCE THE DIVESTITURE OF AT&T. WITH A TWELVE PAGE PHONE BILL IT IS NOT ALWAYS EASY TO DETERMINE WHAT SPECIFIC AFFECT ACCESS CHARGES ARE HAVING. THAT IS WHAT THIS HEARING INTENDS TO CLARIFY. I WILL REPORT WHAT I LEARN TODAY TO THE HOUSE OF REPRESENTATIVES SMALL BUSINESS COMMITTEE'S TASK FORCE ON TELEPHONES ON WHICH I SERVE.

THE FEDERAL COMMUNICATIONS COMMISSION FIRST PROPOSED ACCESS CHARGES TO REPLACE TOLLS ON LONG DISTANCE PHONE USERS THAT NOW HELP SUBSIDIZE THE COSTS OF LOCAL TELEPHONE SERVICE. THE FCC DEFERRED UNTIL THE MIDDLE OF NEXT YEAR A PLAN TO BEGIN CHARGING RESIDENTIAL TELEPHONE CUSTOMERS A FLAT FEE OF $2 PER MONTH FOR ACCESS TO LONG DISTANCE SERVICE. AT THAT TIME, THE FCC ALSO DEFERRED PLANS TO CHARGE BUSINESSES WITH ONLY ONE PHONE LINE A SIMILAR FEE OF UP TO $6 PER MONTH. HOWEVER, THE AGENCY DID ALLOW AN UP TO $6 CHARGE PER LINE PER MONTH CALL TO BE ENACTED ON ALL OTHER BUSINESSES. IN WISCONSIN THE CHARGE IS CURRENTLY $3.68 PER MONTH PER LINE.

SMALL BUSINESSES REMAIN THE MOST CONCERNED ABOUT ACCESS CHARGES SINCE THE BRUNT OF THE COST FALLS ON THEM. THE TELEPHONE IS ONE OF THE MOST IMPORTANT TOOLS A SMALL BUSINESS HAS IN ITS POSSESSION. TELEPHONE CALLS TO AND FROM CUSTOMERS, SUPPLIERS AND OTHER NEEDED SERVICES ARE THE LIFEBLOOD OF ANY SMALL BUSINESS. SMALL BUSINESSES ARE NOT THE PRIMARY USERS OF LONG DISTANCE SERVICE, YET THEY MUST HAVE ACCESS TO LONG DISTANCE LINES IN ORDER TO CONDUCT BUSINESS. THE BURDEN OF ACCESS CHARGES WILL FALL ON THOSE BUSINESSES WHICH HAVE MORE THAN ONE LINE, BUT ARE TOO SMALL TO SET UP THEIR OWN INTERNAL SYSTEMS. WITH RESIDENCES EXEMPT AND LARGE FIRMS ABLE TO BYPASS THE PHONE COMPANY, SMALL FIRMS WOULD APPEAR TO BE LEFT HOLDING THE BAG.

THE FCC HAS ARGUED THAT THESE CHARGES ARE ESSENTIAL TO THE SUCCESS OF THE COURT-ORDERED BREAKUP OF AT&T. THERE IS NO DOUBT THAT THE CHARGES WILL ALLOW AT&T TO CUT LONG DISTANCE RATES AND BETTER COMPETE WITH OTHER LONG DISTANCE COMPANIES. AT&T LONG DISTANCE RATES HAVE ALREADY COME DOWN 6.1 PER CENT SINCE THE ENACTMENT OF ACCESS CHARGES. JUST RECENTLY NEARBY APPLETON BECAME ONE OF THE FIRST CITIES IN THE NATION TO IMPLEMENT "EQUAL ACCESS" SERVICES. THIS WILL MAKE VARIOUS COMPETITIVE LONG DISTANCE LINES READILY AVAILABLE TO THE CONSUMER. I BELIEVE THE FULL CONSEQUENCES OF THIS ACCESS CHARGE AND ITS EFFECT ON SMALL BUSINESS HAVE NOT YET BEEN FULLY EXAMINED. WITH THE HELP OF THE PHONE COMPANIES AND SOME OF OUR LOCAL SMALL BUSINESSES WE HOPE TO DETERMINE THE CONSEQUENCES AND POSSIBLE ALTERNATIVES FOR NORTHEAST WISCONSIN.

OUR WITNESSES ARE A DIVERSE GROUP AND WILL BE DISCUSSING THIS PROBLEM FROM VARIOUS PERSPECTIVES. ON THE PANEL WITH ME TODAY IS CONGRESSMAN VIN WEBER OF MINNESOTA, ALSO A MEMBER OF THE TASK FORCE ON TELEPHONES. I WANT TO THANK MR. WEBER FOR COMING ALL THE WAY FROM WASHINGTON TO JOIN IN THESE PROCEEDINGS. I YIELD NOW TO MY COLLEAGUE FOR ANY OPENING STATEMENT HE MIGHT WISH TO MAKE.

Presentation by Ray J. Riordan, Jr.
to the
U. S. HOUSE OF REPRESENTATIVES SMALL BUSINESS COMMITTEE
TELEPHONE TASK FORCE

INTRODUCTION:

Members of the Telephone Task Force, I want to thank you for this opportunity to present the views of the Wisconsin State Telephone Association concerning the effects of the revolution in the telephone industry on small businesses, including small telephone companies. I am Ray J. Riordan, Jr., Executive Vice President of the Wisconsin State Telephone Association. This trade association represents the interests of the local telephone companies in Wisconsin. We have 100 telephone companies in Wisconsin. This is the second highest of any state in the nation. We are second only to Iowa, Minnesota is third. While these three states comprise approximately 5% of the population in the United States, they account for almost one-quarter of the telephone companies.

Generally, these are small companies serving rural areas. In Wisconsin, half of the telephone companies have less than 2,000 access lines. Exhibit 1 in the material is a list of the telephone companies in Wisconsin and the number of access lines they serve. Access lines are roughly equivalent to the number of customers. The number of customers will be slightly smaller because some will have more than one line. Exhibit 2, the bar chart, is another illustration of the distribution of companies within Wisconsin by number of access lines.

To give you an idea of the area served by various companies in Wisconsin, I'd like to turn your attention to our Boundary Map. The blue area represents the territory Wisconsin Bell serves; the green - General Telephone Company of Wisconsin. A variety of other colors represent the other independents in Wisconsin. Exhibit 3 represents the percent of geographic area that these three segments of our industry serve in Wisconsin. As you can see, the majority is served by the smaller telephone companies.

Exhibit 4 reflects the total of the customers served by each segment. These range from Wisconsin Bell, which serves 2/3 of all the customers in Wisconsin--nationally, they serve 80%. General Telephone Company of Wisconsin, a subsidiary of General Telephone and Electronics which was founded in Richland Center, serves 15%, while the small telephone companies serve 18%. They serve 18% of the customers--but 52% of the geographic area. It reflects the rural nature of these independents.

I believe it is essential that there be an understanding of the telephone system and the jurisdictions into which it is divided.

My first illustration here is a simplified exhibit of the system. The lefthand side represents the customers' premises equipment--this includes the telephone set as well as the wiring inside the building. The next segment is the local loop--this is the wire, cable, poles, conduit, facilities and equipment that connect that customer's equipment to the local telephone office. Next is the central office, the heart of the local system. This switch performs the function of establishing a connection between the party calling and the called party. This switch is used for two purposes: 1) The completion of local calls, and 2) the completion of long distance or toll calls. To indicate this division, I will place this line down the middle of the telephone company office.

The final aspect of our system is the long distance network. This includes that portion of the local switch which is utilized to direct calls to the long distance network. It also comprises the lines, circuits and other facilities from the local office to the toll center, all of the facilities within the toll center and those leading out to the world.

The problem being debated is who should pay which costs in the integrated system. It must be determined which service, local or toll, should pay for which portion of the network.

The cost of certain portions of this system are not affected by the degree of use. These include the customer premises equipment, the local loop and a portion of the central office.

Other components of the network are affected by usage. The local switch and the toll switch have limited capacities. Therefore, the amount of use and the number of customers served directly affect the cost and size of switch. These types of costs are referred to as traffic sensitive plant.

Now I'd like to explain how these costs are recovered in rates for local service, intrastate toll and interstate toll. This same plant that is utilized for local service is also used for toll. It's used for both toll within the state of Wisconsin and interstate toll. Consequently, it has been necessary to allocate the costs of the telephone network between interstate calling, intrastate calling and local service. The jurisdictional separations procedure developed through the joint board and approved by the FCC establish the cost allocation methodologies.

The separation of the traffic sensitive plant is based on usage because we are able to determine those costs. The problem is in the allocation of the non-traffic sensitive costs. At one time, these non-traffic sensitive costs were recovered completely from the local ratepayer. Interstate toll only paid the cost of transferring the call from the originating local switch to the terminating local switch. Forty years ago, the U. S. Supreme Court determined this was inappropriate. The FCC subsequently adopted an allocation process which required interstate calls to pay for a portion of that non-traffic sensitive plant, since it used that plant. The formula for determining the allocation is extremely complex, but results in approximately one-quarter of the total non-traffic sensitive plant in Wisconsin being recovered from interstate toll.

The cost of providing the local loop service is approximately $28 per customer per month. In Wisconsin about half is paid through local service.

Customers who place no long distance calls pay only for a portion of the local network as this illustration shows. Obviously, if they only use that portion of the local network for which they pay, they would have no telephone service.

. Customers whose long distance usage is above average pay for someone else's local service. The method adopted by the FCC to shift this cost is termed "access charges". This is a misnomer. It implies that it is access charges to the toll network. It's not. It is the payment of the costs for the local loop.

One of the reasons that carriers which compete with AT&T, such as MCI and Sprint, are able to offer long distance service for significantly lower rates than AT&T while making a profit that exceeds AT&T, is because these competing carriers do not contribute to the local network to the same degree as AT&T. Under the Feature group A and B, they only pay 45% of the amount that AT&T pays. Therefore, when customers switch from the AT&T network to the MCI network the local telephone company loses revenue.

With this background I will address two separate but related small business concerns. First, the affect that access charges are having on small businesses in Wisconsin. Second, the affect that the transition or revolution in our industry is having on the small telephone companies in Wisconsin.

SMALL BUSINESSES

The Wisconsin State Telephone Association is particularly sensitive to the problems of the small businesses because the majority of our members are small businesses in the telecommunications industry. They serve small rural areas where most of the businesses are small.

Our small telephone companies are worried about their survival. The objective of most small companies in this Association is to help retain all of our present customers and increase the growth in those exchanges. We cannot do this by pricing local exchange service out of reach of any of our customers. Also, we want to maintain the lowest cost possible because we know this is an important factor in retaining our customer base. It should be remembered that we are generally out of the long distance business with the exceptions of our partnership with Wisconsin Bell for the intraLATA long distance service. We only provide connections with long distance carriers. Therefore, our interests do not coincide with AT&T.

The Federal Communications Commission, on May 25, 1984, imposed end user charges on all multi-line business customers. These are business customers with two or more lines. In Wisconsin, these end user charges range from $2.60 to $6.00 per line per month. In some small exchanges, the company opted not to impose these charges and is absorbing that additional cost. Simultaneously, AT&T reduced its interstate long distance rates by 6.1%.

This end user charge represents the shifting of non-traffic sensitive costs. attributed to the interstate jurisdiction. Previously these costs had been put in the toll rates as explained earlier and charged on a usage basis. The more a customer used the long distance service, the more he contributed to the company's costs for non-traffic sensitive plant. Now it is shifted to a flat rate basis for all multi-line customers. The practical result is that there has been an increase in the basic service rate for all these customers.

After learning of the creation of this Task Force and its intention to take testimony in Wisconsin, the Wisconsin State Telephone Association conducted a study to determine the effects of the imposition of end user charges and the simultaneous reductions interstate toll rates had on small businesses.

We looked to the National Federation of Independent Businessmen for a determination of small business' number of business lines. In NFIB's petition to the FCC for suspension of the end user charges on small businesses, it established a criteria for businesses with six or fewer lines.

This study shows that businesses, on the average in Wisconsin, total bills increased by 1.4% as a result of the end user charge and the simultaneous reduction in interstate long distance rates.

If the FCC continues its implementation of end user charges and the corresponding reduction in interstate toll rates, these savings will increase for small businesses because their end user rates will not increase, but they will benefit from the reduction in toll rates. If the FCC continues its plan regarding end user charges, it is my opinion that small businesses in Wisconsin will have lower total phone bills after June 1, 1985 than they had prior to the implementation of end user charges on May 25, 1984.

The 1.4% increase results in an increase of the average small business' monthly telephone bill of $7.63. This increase should not significantly affect the profitability of that business. It should also be remembered that the actual out-of-pocket profit to a small business will be from 20%-50% less because of the income tax affect.

THE DEAVERAGING OF TOLL RATES

The deaveraging of toll rates is a concern of small rural telephone companies. You may ask, "what are average toll rates?" This means that the rates for long distance are the same for the same distances regardless of the point of origination and termination. If you place a long distance interstate call to a community 87 miles from you, the charge will be the same regardless of whether the call is between two large metropolitan areas or two small rural communities. Deaveraging of toll eliminates this. Long distance rates will be dependant on the cost tween the two locations.

There are significant economies of scale which allow long distance calls between two metropolitan areas to cost less on a per call basis than between two rural areas.

The long distance carriers, except AT&T, may chose which LATA they desire to serve. This allows these other carriers to concentrate in the areas where they may utilize the economies of scale. They choose the high density routes.

I think the demise of average toll rates is inevitable.

The advent of competition will force AT&T and the Bell-Independent toll network to reduce its rates on these high density routes to meet the competition. In lowering these prices, we'll lose that additional revenue that made average toll pricing possible. Therefore, rates between rural communities will have to be higher than between the high density areas, because the costs are greater. If the difference appears too great a universal fund may need to be developed to alleviate the problem.

The reason that I address this point is to alert you to the need for the small rural companies to be granted the flexibility to develop their own alternate toll networks. This will permit them to deliver toll service to their customers at the lowest price. They should not be burdened with regulatory restrictions in developing these networks.

BYPASS

The final significant problem I'd like to discuss is Bypass. This is the origination or termination of a call without the use of the local telephone company facilities. A related problem is EAS bypass. This is the avoidance of the local telephone company's toll facilities through the EAS network.

With this illustration, let me describe the various types of bypass. First, there is private bypass. This is a business using facilities which it owns or leases to complete calls within its own system. Second, there is carrier bypass. This is the largest threat to the small rural telephone companies. AT&T, MCI, Sprint, Wisconsin Bell or another interexchange carrier with toll facilities goes directly to the customer's premises to deliver that customer's toll or local service. In Wisconsin and Minnesota there is a consortium of eight power companies that have hired a firm to investigate the possibility of stringing fiber optic cable with their transmission facilities to provide toll service.

Third is private line bypass. Here a company leases a dedicated line through the telephone company to a location in a distant exchange. The company can then use this private line for all its long distance calling between those two exchanges. Fourth, is a new bypass called Teleport Bypass. It is my understanding that the first Teleport bypass is being constructed in New York and will be operational by the first of the year. This is a grouping of facilities to one area to provide both local and toll service. Fifth, bypass through CATV, short hop microwave and other methods for local service bypass.

Finally, the last method of bypass, which is a present and significant problem to many small telephone companies, is EAS bypass. Resellers of toll service and facility based toll carriers locate their switches in metropolitan areas. The exchanges which have extended area service into the metropolis suffer additional costs and significant revenue loss when their customers subscribe to these other carriers. The individual reduces or eliminates his toll usage through the local exchange office and utilizes the EAS network to reach the toll network. The local EAS exchange company receives no compensation for this usage, but does incur additional cost. These additional costs are the result of the higher use of the EAS network than was intended. Therefore, additional facilities are required.

The metropolitan exchange which is the home of the reseller or facility based carrier receives all of the revenue through charges for WATS lines or access charges. We believe that the EAS exchange carriers should be reimbursed by the interexchange toll carriers that benefit from this free usage of EAS facilities.

One company, Mid-Plains Telephone Company in Middleton, Wisconsin, has the equipment to measure the amount of traffic going over these EAS facilities to the alternate toll carriers. It is estimated that its monthly toll loss is $30,000 a month or $2.50 for every customer. This figure is growing with the growth of these alternate toll carriers.

Bypass is not a problem that is limited to the metropolitan areas. AT&T, Midwest Relay, Western Union and other entities have microwave systems that permeate the state. AT&T is the most likely bypasser of small rural telephone companies. In many cases, it would only take one microwave hop to reach any of these alternate facilities.

This is particularly significant to these small rural companies because of their heavy dependence on a few businesses. A survey of local operating companies in rural areas indicated that as few as five customers generated 70% of the long distance revenues for some of those companies. On the average, 60% of these companies' revenue results from toll. If the average company lost that toll, it would have to raise its local rates by over 150% to compensate.

This is why we are concerned about bypass and toll rates in the rural areas. We believe that these small companies should be allowed to provide alternate toll facilities without the red tape, bureaucracy and restrictions imposed by regulatory authorities.

TELEPHONE OPERATING STATISTICS 1983

SELECTED WISCONSIN COMPANIES

A LISTING OF COMPANIES BY NUMBER OF ACCESS LINES - IN ASCENDING ORDER

COMPANY NAME	NO. OF ACCESS LINES
BERGEN TELEPHONE COMPANY	157
MAPLE TELEPHONE COOPERATIVE, INC	277
MADELINE ISLAND TELEPHONE COMPANY	285
NOVYS TELEPHONE COMPANY	504
BELMONT TELEPHONE COMPANY	693
FOOTVILLE TELEPHONE COMPANY	749
SPRING VALLEY TELEPHONE COMPANY, INC	779
TENNEY TELEPHONE COMPANY	848
DODGE COUNTY TELEPHONE COMPANY	849
SHARON TELEPHONE COMPANY	870
DICKEYVILLE TELEPHONE CORPORATION	889
CASCO TELEPHONE COMPANY	961
SOMERSET TELEPHONE COMPANY, INC	982
COCHRANE COOPERATIVE TELEPHONE CO	994
BLACK EARTH TELEPHONE COMPANY	994
RIB LAKE TELEPHONE COMPANY	1,005
TURTLE LAKE TELEPHONE COMPANY INC	1,041
CLEAR LAKE TELEPHONE COMPANY, INC	1,063
FAIRWATER BRANDON ALTO TELEPHONE CO	1,081
BAYLAND TELEPHONE INC	1,115
WAYSIDE TELEPHONE COMPANY	1,122
LAKEFIELD TELEPHONE COMPANY	1,177
BRUCE TELEPHONE COMPANY, INC	1,244
GREENWOOD TELEPHONE COMPANY	1,258
ROCK RIVER TELEPHONE COMPANY,	1,315
LAKESHORE TELEPHONE COMPANY	1,334
LA VALLE TELEPHONE COOPERATIVE, INC	1,341
BONDUEL TELEPHONE COMPANY	1,361
HILLSBORO TELEPHONE COMPANY INC	1,370
CUBA CITY TELEPHONE EXCHANGE COMPANY	1,408
SULLIVAN TELEPHONE COMPANY	1,446
INDIANHEAD TELEPHONE CO.	1,460
HAGER CITY TELEPHONE COMPANY	1,493
SIREN TELEPHONE COMPANY INCORPORATED	1,504
CITIZENS TELEPHONE COOPERATIVE INC	1,505
FENNIMORE TELEPHONE COMPANY	1,518
MILLTOWN MUTUAL TELEPHONE COMPANY	1,570
PEOPLES TELEPHONE CO (MOUNT HOPE)	1,609
LUCK TELEPHONE COMPANY	1,613
FORESTVILLE TELEPHONE COMPANY, INC	1,641

TELEPHONE OPERATING STATISTICS 1983

SELECTED WISCONSIN COMPANIES

A LISTING OF COMPANIES BY NUMBER OF ACCESS LINES - IN ASCENDING ORDER

COMPANY NAME	NO. OF ACCESS LINES
WITTENBERG TELEPHONE COMPANY	1,673
SCANDINAVIA TELEPHONE COMPANY	1,676
VALDERS TELEPHONE COMPANY	1,715
MANAWA TELEPHONE COMPANY, INC	1,726
COON VALLEY FARMERS TELEPHONE CO	1,741
LARSEN-READFIELD TELEPHONE COMPANY	1,822
SHELL LAKE TELEPHONE COMPANY	1,827
CRANDON TELEPHONE COMPANY	1,859
THORP TELEPHONE COMPANY	1,861
MONDOVI TELEPHONE COMPANY	1,963
FARMERS INDEPENDENT TELEPHONE CO	2,017
STOCKBRIDGE & SHERWOOD TELEPHONE CO	2,022
RICHLAND GRANT TELEPHONE COOPERATIVE	2,164
LEMONWEIR VALLEY TELEPHONE COMPANY	2,242
MARQUETTE ADAMS TELEPHONE COOP INC	2,377
MOUNT HOREB TELEPHONE COMPANY	2,446
BLOOMER TELEPHONE COMPANY	2,468
BURLINGTON BRIGHTON & WHEATLAND TEL	2,476
BALDWIN TELECOM, INC.	2,478
MOSEL CENTERVILLE TELEPHONE COMPANY	2,611
NIAGARA TELEPHONE COMPANY	2,766
VIROQUA TELEPHONE COMPANY	2,824
WAUNAKEE TELEPHONE COMPANY INC	2,893
UNION TELEPHONE COMPANY	2,987
PRICE COUNTY TELEPHONE COMPANY	2,987
WEST WISCONSIN TELEPHONE COOP, INC	3,032
AMHERST TELEPHONE COMPANY	3,050
MOSINEE TELEPHONE COMPANY	3,142
TRI-COUNTY TELEPHONE COOP, INC	3,187
NELSON TELEPHONE COOPERATIVE	3,197
HEADWATERS TELEPHONE COMPANY	3,361
WEYAUWEGA TEL DIV/CENCOM OF WI INC	3,428
BADGER STATE TELEPHONE COMPANY,INC	3,694
NORTHEAST TELEPHONE COMPANY	4,010
MOUNT VERNON TELEPHONE COMPANY	4,159
CHIBARDUN TELEPHONE COOPERATIVE INC	4,176
AMERY TELEPHONE COMPANY	4,311
ST CROIX TELEPHONE COMPANY	4,604
SOUTHEAST TELEPHONE CO OF WISC, INC	4,785
FARMERS TELEPHONE COMPANY	4,993

EXHIBIT 1 - page 3

TELEPHONE OPERATING STATISTICS 1983

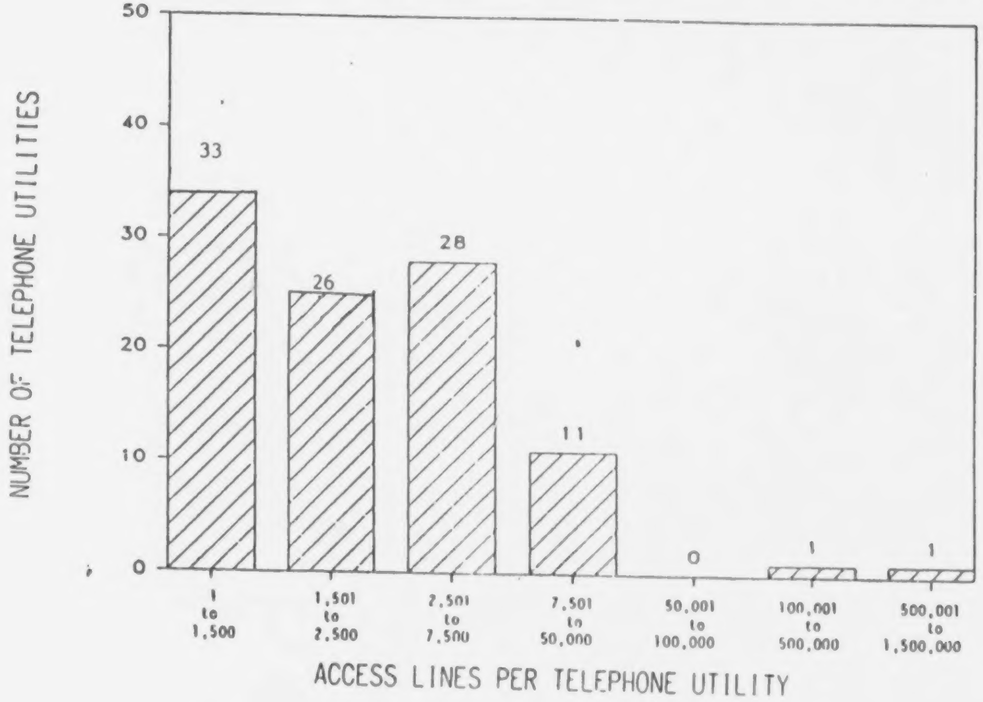
SELECTED WISCONSIN COMPANIES

A LISTING OF COMPANIES BY NUMBER OF ACCESS LINES - IN ASCENDING ORDER

COMPANY NAME	NO. OF ACCESS LINES
CHEQUAMEGON TELEPHONE COOP INC	4,887
STATE LONG DISTANCE TELEPHONE CO	5,043
VERNON TELEPHONE COOPERATIVE	5,050
PEOPLES TELEPHONE CO, THE (RANDOLPH)	5,206
MIDWAY TELEPHONE COMPANY	5,602
CENTRAL STATE TELEPHONE COMPANY	6,206
PLATTEVILLE TELEPHONE COMPANY	6,922
MONROE COUNTY TELEPHONE COMPANY	7,878
RHINELANDER TELEPHONE COMPANY	9,598
UNIVERSAL TEL CO OF NORTHERN WIS INC	10,043
UNITED TELEPHONE COMPANY	10,594
SOLON SPRINGS TELEPHONE COMPANY	12,064
MID-PLAINS TELEPHONE INCORPORATED	12,289
URBAN TELEPHONE CORPORATION	15,399
CENCOM OF WISCONSIN, INC.	15,773
WOOD COUNTY TELEPHONE COMPANY	18,767
CENTURY TELEPHONE OF WIS., INC.	39,820
NORTH-WEST TELEPHONE COMPANY	47,086
GENERAL TELEPHONE COMPANY OF WISC	331,527
WISCONSIN BELL, INC.	1,469,983

EXHIBIT 2

SIZE OF WISCONSIN'S TELEPHONE UTILITIES



NOTE: AN ACCESS LINE GENERALLY CORRESPONDS TO A SEVEN DIGIT LOCAL PHONE NUMBER.

SOURCE: "TELEPHONE STATISTICS, SELECTED FINANCIAL DATA FOR WISCONSIN TELEPHONE COMPANIES, 1983," BULLETIN NO. 121, ACCOUNTS AND FINANCE DIVISION, PUBLIC SERVICE COMMISSION.

EXHIBIT 3

SHARE OF STATE AREA ASSIGNED

TO TELEPHONE COMPANIES

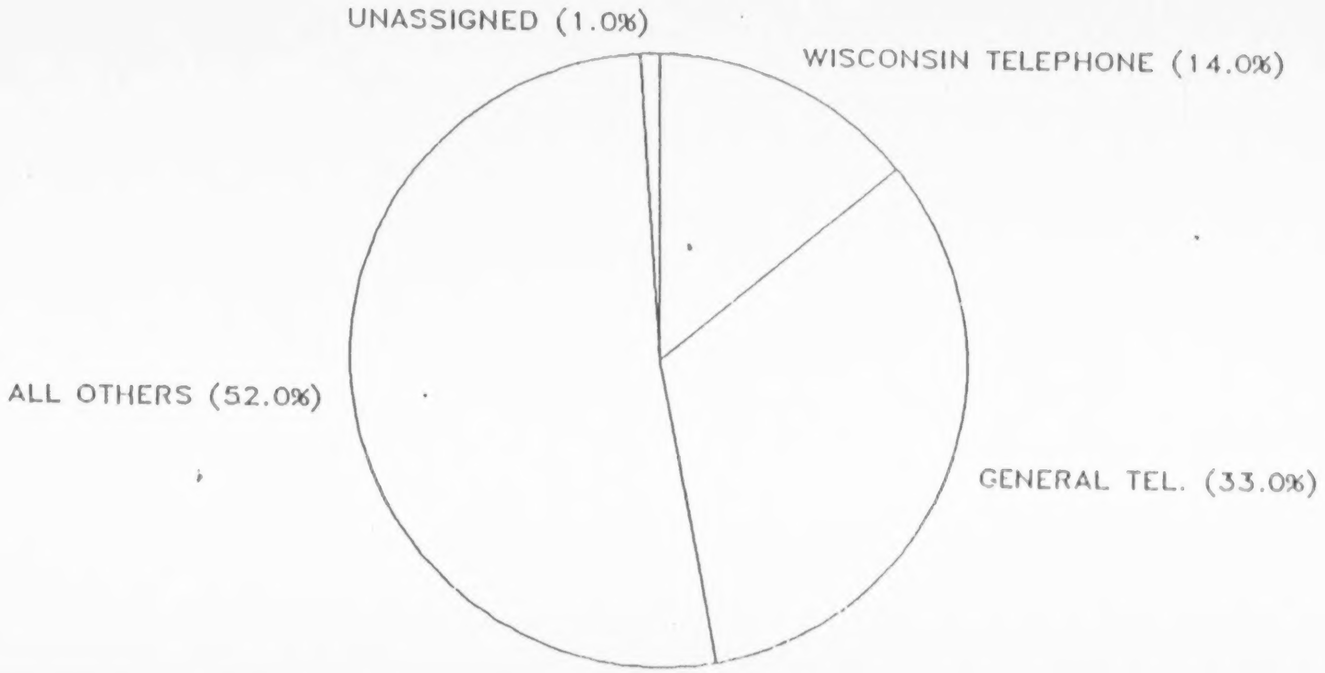


EXHIBIT 4

SHARE OF ACCESS LINES IN WISCONSIN

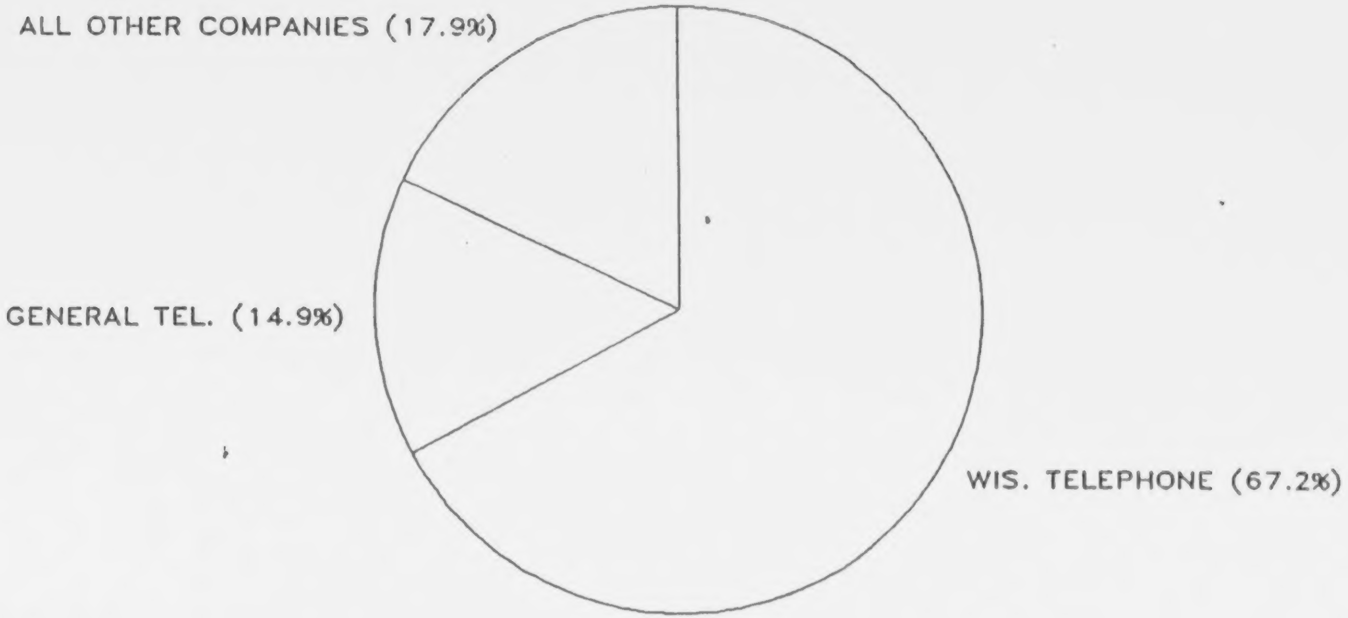
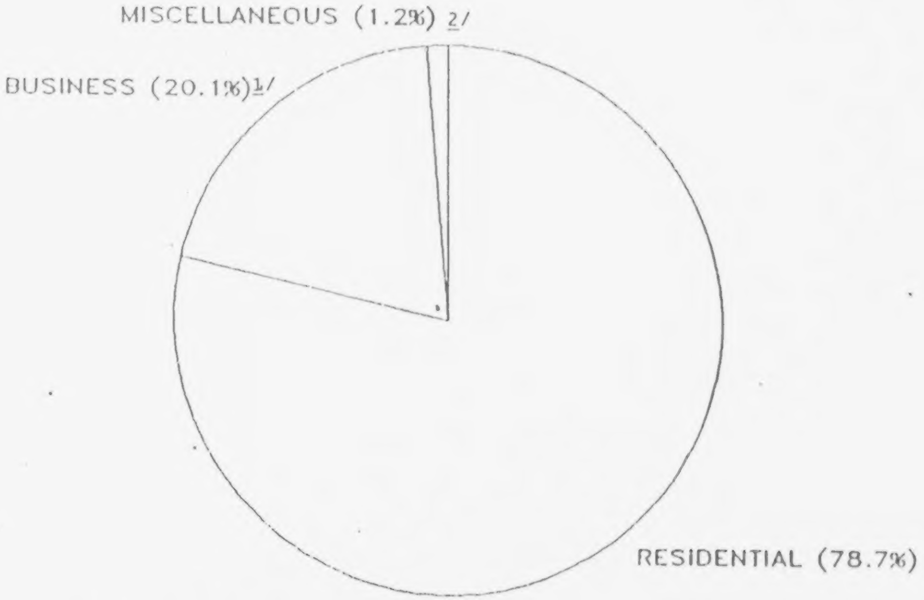


EXHIBIT 5

TYPE OF CUSTOMERS– ALL COMPANIES



BASIS: TOTAL NUMBER OF ACCESS LINES OF ALL WISCONSIN TELEPHONE COMPANIES.

NOTES: 1/ BUSINESS CUSTOMERS INCLUDE PAY AND MOBILE LINES.

2/ MISCELLANEOUS CUSTOMERS INCLUDE SERVICE TO "FOREIGN" EXCHANGES AND CONNECTIONS TO OTHER COMMON CARRIERS.

EXHIBIT 6

Average Increase in Telephone Cost
Resulting From End User Charges and Interstate Toll Reduction

	Average Increase
Business with 2 lines	$ 6.04
Business with 3 lines	7.99
Business with 4 lines	10.59
Business with 5 lines	11.48
Business with 6 lines	11.41
Overall Average	$ 7.63

STATEMENT BY DAN GRIFFITH ON BEHALF OF
WISCONSIN BELL, INCORPORATED
BEFORE THE SPECIAL TASK FORCE
ON TELEPHONE SERVICE
COMMITTEE ON SMALL BUSINESS
GREEN BAY, WISCONSIN, SEPT. 14, 1984

MR. CHAIRMAN, MEMBERS OF THE TASK FORCE, AND LADIES AND GENTLEMEN, I AM DAN GRIFFITH, ASSISTANT VICE PRESIDENT OF PUBLIC AFFAIRS FOR WISCONSIN BELL. IN ADDITION TO OTHER FUNCTIONS, I AM RESPONSIBLE FOR LEGISLATIVE MATTERS IN WISCONSIN.

I'M HAPPY TO HAVE THIS OPPORTUNITY TO OFFER WISCONSIN BELL'S VIEWS ON THE CURRENT SITUATION IN THE TELECOMMUNICATIONS INDUSTRY AFFECTING SMALL BUSINESS CUSTOMERS.

AT THE OUTSET, I'D LIKE TO MAKE TWO ESSENTIAL POINTS: FIRST, THAT WE ARE FULLY COMMITTED TO MAINTAINING UNIVERSAL SERVICE. SECOND, WE BELIEVE THAT IMPLEMENTATION OF THE FEDERAL COMMUNICATION COMMISSION'S ACCESS CHARGE PLAN IS THE MOST PRACTICAL WAY TO CONTINUE TO PROVIDE UNIVERSAL SERVICE OVER THE LONG RUN.

IN ORDER TO MOST EFFECTIVELY DISCUSS THIS ISSUE, AND ITS IMPACT ON SMALL BUSINESS, THE REST OF MY ORAL COMMENTS WILL CONCERN THE END USER CHARGE FOR ACCESS TO THE LOCAL AND LONG DISTANCE NETWORKS.

IN THE TIME ALLOTTED, I WILL ONLY BE ABLE TO GIVE A SIMPLIFIED EXPLANATION OF ACCESS CHARGES. HOWEVER, I HAVE SUBMITTED SOME ADDITIONAL TESTIMONY BY WISCONSIN BELL AND AMERITECH THAT GOES INTO GREATER DETAIL. IN ADDITION, OF COURSE, I WILL ANSWER ANY QUESTIONS YOU MAY HAVE IF TIME ALLOWS.

SINCE, IN OUR VIEW, THERE HAS BEEN A SUBSTANTIAL AMOUNT OF MISINFORMATION PRESENTED TO THE PUBLIC, I'LL BEGIN WITH AN EXPLANATION OF THE CURRENT SITUATION.

LOCAL SWITCHING OFFICES ARE USED FOR BOTH LOCAL AND LONG DISTANCE CALLING. CONNECTING THESE OFFICES WITH THE CUSTOMERS ARE LINES THAT WE CALL THE "LOCAL LOOP."

THAT IS, A LINE RUNS FROM OUR OFFICE TO YOUR BUSINESS SO THAT YOU CAN MAKE AND RECEIVE CALLS. IT IS IMPORTANT TO REMEMBER THAT THE COST TO PROVIDE THIS LOCAL LOOP IS NOT DEPENDENT ON WHETHER ANY CALLS ARE ACTUALLY PLACED OR RECEIVED.

IN OTHER WORDS, IT COSTS WISCONSIN BELL EXACTLY THE SAME TO PROVIDE THIS LINE WHETHER IT IS IN CONSTANT USE OR HAS NO USE AT ALL. THIS COST IS CALLED "NON-TRAFFIC SENSITIVE" BECAUSE ITS COST DOES NOT DEPEND ON THE AMOUNT OF TRAFFIC THAT IT CARRIES.

IN THE PAST, THIS NON-TRAFFIC SENSITIVE COST WAS RECOVERED IN LARGE MEASURE IN LONG DISTANCE RATES, RATHER THAN LOCAL RATES.

THIS WAS A PUBLIC POLICY DECISION HAVING NOTHING TO DO WITH DECIDING THE MOST APPROPRIATE WAY TO RECOVER COSTS. RATHER, IT WAS A MEANS OF KEEPING LOCAL RATES LOWER THAN THEY OTHERWISE WOULD HAVE BEEN.

THAT WAS ACCEPTABLE IN A MONOPOLY ENVIRONMENT. THAT IS, IF ONE COMPANY SUPPLIED BOTH LOCAL AND LONG DISTANCE SERVICE AND NO ONE ELSE WAS ALLOWED TO OFFER THAT SERVICE, IT DIDN'T MAKE MUCH DIFFERENCE TO THE COMPANY HOW IT RECOVERED ITS COSTS.

HOWEVER, AS WE'RE ALL AWARE, THERE IS TODAY A SUBSTANTIAL - AND GROWING - COMPETITIVE MARKETPLACE IN VIRTUALLY EVERY AREA OF OUR BUSINESS, AND THAT'S ESPECIALLY TRUE IN LONG DISTANCE.

PUBLIC POLICY HAS CHANGED. IF PUBLIC POLICY HAD BEEN DIFFERENT - IF THE TELEPHONE BUSINESS HAD BEEN JUST LIKE MOST OTHER BUSINESSES - PRICES WOULD HAVE BEEN BASED ON THEIR COSTS RIGHT FROM THE START.

BUT LEGISLATORS AND REGULATORS FELT IT WAS MORE IN THE PUBLIC INTEREST TO ARTIFICIALLY PRICE TELEPHONE SERVICES SO THAT MORE PEOPLE COULD AFFORD BASIC SERVICE. IN RETURN, TELEPHONE COMPANIES WERE TREATED AS REGULATED MONOPOLIES, NOT SUBJECT TO DIRECT COMPETITION.

BECAUSE VIRTUALLY EVERYONE WHO WANTS IT NOW HAS AFFORDABLE BASIC SERVICE, THE PRESENT POLICY IS DIFFERENT. IN MANY RESPECTS, THE TELEPHONE BUSINESS IS JUST LIKE ANY OTHER. AND, WHILE MANY PEOPLE VIEW THE LOCAL BUSINESS AS A MONOPOLY, WE KNOW THAT TECHNOLOGIES EXIST TODAY THAT CAN REPLACE EVEN LOCAL SERVICE FOR SOME CUSTOMERS.

AS A NEWLY COMPETITIVE INDUSTRY, WE ARE IN THE PROCESS OF REORGANIZING THE WAY WE PRICE OUR SERVICES. ONE BASIC PRICING CONCEPT USED BY ALL COMPETITIVE BUSINESSES IS THAT THE CUSTOMERS WHO CAUSE THE COSTS OUGHT BE THE ONES WHO PAY.

THAT MEANS, FOR EXAMPLE, THAT THE LOCAL LOOP COSTS OUGHT TO BE RECOVERED FROM LOCAL CUSTOMERS. AND, SINCE THE COST IS NOT AFFECTED BY USAGE - THAT IS, THE COST IS NOT VARIABLE - THE MONTHLY RATE ALSO SHOULD REMAIN CONSTANT AND SHOULD NOT BE BASED ON USAGE.

BUT BECAUSE THE LINE IS USED FOR BOTH INTRASTATE AND INTERSTATE CALLING, EACH CATEGORY OF CALLING CAN BE ASSIGNED A CERTAIN PORTION OF THE LOCAL LOOP.

IN OTHER STATES THE FLAT RATE TO COVER THE COST OF THE INTERSTATE PORTION OF THE LOCAL LOOP IS QUITE HIGH. IN WYOMING, FOR INSTANCE, THE DISTANCE BETWEEN CUSTOMERS MEANS THAT THE COST PER CUSTOMER IS MUCH LARGER THAN IN WISCONSIN, WHICH IS MORE DENSELY POPULATED.

THAT ALSO ACCOUNTS FOR THE FACT THAT WISCONSIN BELL DOES NOT REQUIRE AN INTRASTATE ACCESS CHARGE TO RECOVER THAT PORTION OF THE LOCAL LOOP COST.

BECAUSE WISCONSIN BELL IS A RELATIVELY LOW-COST COMPANY, THE INTERSTATE PORTION OF THE LOCAL LOOP COSTS ARE RECOVERED WITH A CHARGE OF ONLY $3.68 PER LINE PER MONTH FOR MULTI-LINE CUSTOMERS. THE F.C.C. HAS DELAYED AN ACCESS CHARGE ON SINGLE-LINE BUSINESS AND RESIDENCE LINES UNTIL NEXT YEAR.

THE IMPACT OF THIS RATE IS MITIGATED BY TWO FACTORS: FIRST, THE FACT THAT BUSINESS CAN USE TELEPHONE COSTS AS A TAX DEDUCTION, THEREBY REDUCING THE EFFECT BY UP TO 50 PERCENT; AND SECOND, AN ACROSS THE BOARD REDUCTION IN AT&T'S LONG DISTANCE RATES OF 6.1 PERCENT. OTHER LONG DISTANCE COMPANIES ALSO MADE RATE REDUCTIONS.

THUS, THE BREAK-EVEN POINT IS ABOUT $60 OF INTERSTATE LONG DISTANCE CALLING. THAT IS, IF A BUSINESS AVERAGES 60 DOLLARS OR MORE PER LINE IN INTERSTATE CALLING THROUGH AT&T, IT IS BETTER OFF THAN IF THE ACCESS CHARGE HAD NOT BEEN IMPLEMENTED.

IN FACT, HAD END USER CHARGES BEEN IMPLEMENTED AS PROPOSED BY THE FCC, THE TOLL REDUCTION COULD HAVE BEEN MUCH MORE SUBSTANTIAL - PERHAPS AS MUCH AS 15 PERCENT. THIS WOULD HAVE MADE THE BREAK-EVEN POINT LESS THAN 25 DOLLARS PER LINE.

AND THAT'S THE POINT: THIS IS NOT A RATE INCREASE...IT IS A RATE RECONFIGURATION THAT WILL COST SOME CUSTOMERS MORE AND SOME LESS. THE NEED FOR THIS CHANGE IS CAUSED BY THE NEWLY COMPETITIVE NATURE OF THE BUSINESS, ALONG WITH THE NEW TECHNOLOGY THAT IS ACTUALLY AT THE ROOT OF THE CHANGES IN THE TELECOMMUNICATIONS INDUSTRY.

WISCONSIN BELL'S POSITION IS THAT THE BENEFITS OF COMPETITION CAN ONLY BE REALIZED IN A TRULY COMPETITIVE MARKETPLACE, FREE OF UNNECESSARY REGULATION. WE BELIEVE THAT IN THE LONG RUN, REGULATION AND COMPETITION CANNOT EXIST SUCCESSFULLY TOGETHER...WE EITHER HAVE COMPETITION OR REGULATION, BUT NOT BOTH.

IF THERE ARE PROBLEMS FOR INDIVIDUAL CUSTOMERS CAUSED BY THESE CHANGES, THEN WE SHOULD FIX THOSE ON AN INDIVIDUAL BASIS. THAT IS, IF SOME CUSTOMERS, IN ORDER TO CONTINUE TO HAVE TELEPHONE SERVICE, NEED SOME FORM OF SUBSIDY, THEN LET'S TARGET THAT SUBSIDY TO THE TRULY NEEDY.

BUT WE STRONGLY URGE THAT, IF COMPETITION IS TO BE THE DRIVING FORCE IN OUR BUSINESS, WE ALLOW THE ECONOMIC PRINCIPLES OF A FREE MARKETPLACE TO OPERATE.

THANK YOU.

Attachments: Wisconsin Bell Exhibits 1, 2 & 3

EXHIBIT 1
WISCONSIN BELL, INC.

Executive Summary - Michael Paulson testimony of 8/29/84, Special Committee on Telecommunications

It is Wisconsin Bell's basic position that Wisconsin statutory and regulatory policies should reflect a commitment to open and equal competition in the telecommunications industry. All industry participants, including the local telephone companies, should be permitted to compete on fair terms without unnecessary regulation.

Because of the rapidly changing nature of the industry, however, the legislature ought not legislate resolution of specific issues. Legislative action should be in the form of reaffirming a policy framework within which the Public Service Commission (PSC) can best manage the transition toward a competitive environment and deregulation.

Rapidly changing technology was the driving force of competition in the telecommunications industry. For example, the first electronic computer was created in 1946. A microprocessor today is 30,000 times cheaper and 200 times more powerful.

Wisconsin Bell uses advanced technology in a wide variety of ways to reduce the cost of providing service, while at the same time, increase its speed, quality and reliability. In addition, the company receives revenue from the sale of optional services made possible by improved technology.

Technology, however, is not exclusive to Wisconsin Bell's use. Numerous companies can, and do, use similar technology to directly compete with services Wisconsin Bell provides.

Policies created when stable, monopoly conditions prevailed no longer serve the public interest. Only substantial deregulation of competitive markets will provide the proper framework in which a multitude of suppliers can most efficiently and effectively operate. Wisconsin Bell seeks no protection for itself, nor is it required for its competitors - the competitive marketplace will perform the role of protector.

While total deregulation cannot, and should not, happen overnight, movement toward deregulation could include removing cross-subsidies among services, pricing related to costs and the marketplace, deaveraging prices, detariffing competitive service offerings, and allowing open entry into new lines of business. At the present time, regulation is unequal. Wisconsin Bell is restricted in the marketplace while its competitors are not.

Pricing that recognizes the competitive marketplace is consistent with universal service, which remains a commitment of Wisconsin Bell.

Therefore, any legislation proposed by the committee should reaffirm the state's commitment to competition and provide the PSC with the necessary guidelines and flexibility to effectively manage the transition to a competitive, deregulated telecommunications marketplace in Wisconsin.

Special Committee on Telecommunications

Senator Strohl, members of the Special Committee on Telecommunications.

I am Michael Paulson, a regulatory attorney on the legal staff of Wisconsin Bell, Inc. I am very pleased to be able to appear today in order to outline Wisconsin Bell's position on the very important and very complex policy questions this Committee is addressing.

It is Wisconsin Bell's basic position that Wisconsin statutory and regulatory policies should reflect a commitment to open and equal competition in the telecommunications industry, with all industry participants, including the local telephone companies, being permitted to compete on fair terms, without unnecessary regulation.

But because of the rapidly changing nature of the industry, the Legislature ought not try to develop hard and fast rules on specific regulatory issues. Any legislative action should be in the form of restating a broad policy framework within which the Public Service Commission of Wisconsin can continue to manage the transition towards a competitive environment and appropriate deregulation.

Technology has created today's competitive telecommunications marketplace in the United States and in Wisconsin. The breakup of AT&T and recent decisions by the Federal Communications Commission on a variety of issues involving deregulation are the result of that technology-driven competition. The federal decisions did not cause competition; they simply speeded up the entry of competition into the industry. Competition was inevitable because of the services made possible by the new technology.

A few examples dramatize the impact of technological change. The first electronic digital computer was the ENIAC in 1946. Today's common microprocessor on a chip is 30,000 times cheaper--and 200 times more powerful. The cost of fiber optic cable, which uses light to transmit electronic information, was $10 per meter in 1975; some predict that it will be as low as a penny a meter by 1990.

Wisconsin Bell is dedicated to the aggressive use of these and similar technological developments throughout its operations. Deployment of technology is beneficial to all consumers, and especially to residential ratepayers. Sophisticated technology permits Wisconsin Bell to reduce the cost of providing services by reducing maintenance and employee-related expenses. It permits Wisconsin Bell to offer faster, higher quality, more reliable telephone services to all our customers.

Technology also permits us to offer optional, sophisticated services to both residential and business customers that generate millions of dollars in revenues above those which could be generated from older systems. The additional revenues from these optional services help hold down local rates because, in general terms, the Public Service Commission first determines the total revenues Wisconsin Bell will be authorized to collect. It then determines the amount of revenue to be collected from optional services. Any remaining revenue requirements are then collected from local exchange rates. The more revenue that can be generated from optional services, the smaller will be the revenue to be collected from local rates. In short, local service is better and local rates are lower than they otherwise would be because Wisconsin Bell has incorporated the latest in technology into its local network.

But this explosion in technology also permits competitors to provide telecommunications services that compete with those that have traditionally been provided only by local telephone companies. Direct satellite systems and private microwave or fiber optic systems mean that businesses can communicate within a city, across the state, or across the country without ever having to use the services of a local telephone company, as is demonstrated in the attached Fortune and Business Week magazine articles.

Competition is increasing locally as well. Almost daily, one reads press accounts of new proposals for local communication services: local area networks, private microwave systems between company locations, and cellular telephones are just a few. These applications of technology don't only relate to business use: the potential for communication using home computers and cable television services has only begun to be explored.

There are many other examples. The point is that telecommunications technology will continue to evolve in this manner--where time to develop the next generation of technology grows ever shorter, capacity costs become cheaper, and the uses of the technology become more diverse.

As Isaac Asimov, the noted author, predicts:

> Electronic communication is a fundamental change on a par with previous great revolutions such as writing, printing, and the telephone/telegraph. In fact, this one is probably going to be the greatest change and the most far reaching in its social implications of anything since the invention of speech itself. [Asimov, "The Electronic Revolution," Public Relations Quarterly (Spring 1984) at p. 4]

The challenge in Wisconsin is straightforward: conform the legislative and regulatory reality to this underlying technological, competitive reality. Policies that once served the public when stable monopoly conditions existed will no longer serve the public in today's increasingly competitive marketplace, as the attached interview with the chairman of the Illinois Commerce Commission makes abundantly clear. Burdensome, unnecessary regulation imposes costs on companies and their ratepayers, making rates higher than they would otherwise have to be and making telephone companies less able to compete effectively. Competition and the present forms of regulation are simply incompatible. Only substantial deregulation in competitive markets will provide an appropriate framework within which all suppliers of telecommunications services can operate to maximize the benefits of technology to the Wisconsin consumer.

Nothing this Legislature or the Public Service Commission of Wisconsin might do can bring back "the good old days." Technology simply will not permit it. It is impossible to legislate or regulate against technology or against the competition it has created.

In the same way, it is impossible to divide the telecommunications industry into neat little boxes, one containing monopoly services and another containing competitive services, with different rules to apply depending on which box one is in. That assumes one can somehow box in technology, and flatly denies the reality that the entire industry is competitive, both locally and nationally. Competition is pervasive.

Wisconsin Bell seeks the right to compete on even terms. We seek no protection, nor do we think our competitors need protection. For competitive services, the marketplace will perform that role of protector effectively and efficiently.

That is not to say that there is not a role for the Legislature or the Public Service Commission of Wisconsin. Realistically, deregulation of all areas of our business cannot and should not happen overnight.

However, reasonable, steady, and rational movement towards deregulation of competitive markets is needed. This would include, as examples, the removing of cross-subsidies, pricing related to costs and the marketplace, deaveraging prices, detariffing competitive service offerings, permitting free and open entry into new lines of business, and introducing more realistic depreciation schedules. In addition, the gross receipts tax should be eliminated and replaced with a property tax equal to that placed on our competitors. Such a change would have reduced the amount paid by Wisconsin Bell ratepayers by an estimated $41 million in 1983.

Moreover, enlightened deregulation in competitive markets is necessary to maintain the financial viability of Wisconsin telephone utilities. Weakened financial health of telephone companies increases the costs of providing service by increasing the costs of financing for capital improvements, which in turn increases local rates. As major employers in Wisconsin who cannot leave the state, financial health is directly related to the local telephone companies' ability to provide modern, efficient, high quality services to their customers. That ability to maintain a technologically advanced telecommunications infrastructure is key to the continued economic development of the

Wisconsin economy. Failure to recognize the importance of preserving the financial health of local telephone companies may, in the long run, doom them to the fate of the railroads--unable to compete effectively--to the detriment of the entire Wisconsin citizenry.

Wisconsin Bell believes that the key is a legislative reaffirmation that public policy in Wisconsin favors competition in the telecommunications industry. As is stated in Section 133.01, Wis. Stats.,

> It is the intent of the Legislature to make competition the fundamental economic policy of this state and, to that end, state regulatory agencies shall regard the public interest as requiring the preservation and promotion of the maximum level of competition in any regulated industry consistent with the other public interest goals established by the Legislature.

This language should be explicitly incorporated into any regulatory statutes involving the telecommunications industry.

Also critical is a legislative reinforcement of the Commission's existing power to apply flexible regulatory tools, including complete deregulation of competitive services, to all participants in the telecommunications marketplace. The guiding principal should be that services provided by competitors should be regulated, and deregulated, equally.

How a service is regulated should not depend on who one is, but rather on the nature of the service. If more than one provider can provide the service, or if substitutes exist, then all providers should be permitted to provide the service competitively, with a minimum of regulatory interference with the forces of the competitive marketplace.

The worst of all possible worlds is that which exists today, where the regulatory process is a handicapper of a few participants--particularly the local telephone companies--to the sole benefit of their unregulated competitors. The result of this unequal regulation is customers moving from the restricted, regulated services of the telephone companies to the unrestricted, unregulated services of their competitors. Customers and revenues are being lost daily by the regulated companies. Consequently, those who have no alternatives--especially small businesses and residential ratepayers--are forced to bear ever higher shares of the costs of maintaining the basic network.

Local telephone companies must be permitted to price their competitive services on the same basis as their competitors--based on the market and the costs of providing those services. That necessarily means that the cross-subsidies that are built into current rates for many of these services in order to artificially subsidize local exchange rates cannot continue, to the extent those subsidies are inconsistent with the competitive marketplace.

Elimination of cross-subsidies will necessarily mean that there will be shifts in who pays the costs of operating the telephone network, including some increases in local rates. But the increases in the local rates that will result from elimination of artificial cross-subsidies will be far less than the increases that would result if we don't start taking corrective action.

The burden of these cross-subsidies are mostly borne by large customers. The loss of the business of even a few of Wisconsin Bell's largest customers would mean the loss of millions of dollars of revenue that would have to be recovered from residential ratepayers through increased local exchange rates. For example, only 3% of Wisconsin Bell's business customers provide 42% of Wisconsin Bell's business revenues.

Pricing that minimizes cross-subsidies and recognizes the competitive marketplace is consistent with universal service. Wisconsin Bell has been, and remains, committed to universal service. We are dedicated to continuing to provide access to the telephone network to the widest possible proportion of Wisconsin customers.

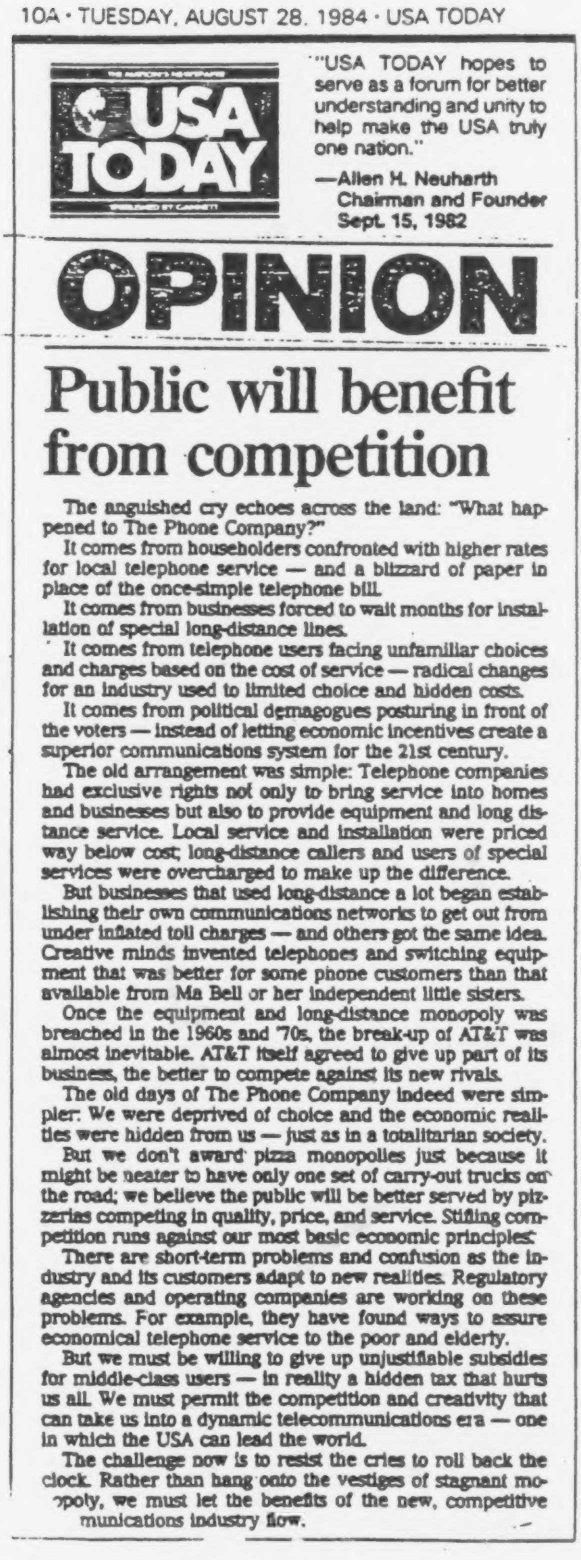
Yet preserving universal service does not mean preserving the subsidies that currently flow from competitive services to local exchange rates. Local service rates are heavily subsidized, especially by long distance toll services. Some would argue the opposite subsidy exists--from local to toll. However, one only has to recognize that competition has been strongest in the long distance market for one main reason--because artificially high long distance rates have been and continue to subsidize local rates.

Disagreements over the exact dollar amount and the precise form of these subsidies cannot change the fact that these subsidies are widespread in the present telephone rate structure. Moreover, it makes no sense to continue to subsidize wealthy residents to the same extent as low income residents. Yet that is exactly what today's system does, where all local exchange ratepayers--whether wealthy or on low incomes--are subsidized equally. If a subsidy is needed to preserve universal service, it should be explicitly recognized and specifically targeted to those customers who specifically need the subsidy. Any such subsidy should be funded through the general tax revenues, not buried as a hidden tax in telephone rates.

Wisconsin Bell respectfully urges the Legislature to reaffirm its commitment to competition in the telecommunications industry and to provide the PSCW with the necessary policy guidelines and regulatory flexibility to effectively manage the transition towards a competitive telecommunications marketplace in Wisconsin, with the degree of regulation commensurate with the competitive nature of the industry.

Wisconsin Bell stands ready in any way it can to assist this Committee in addressing the complex issues before it. Because the issues are so complex and interrelated, simple solutions are not possible. Wisconsin Bell welcomes the opportunity to assist this Committee by providing additional information and commenting on specific proposals.

Thank you.



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—Allen H. Neuharth
Chairman and Founder
Sept. 15, 1982

OPINION

Public will benefit from competition

The anguished cry echoes across the land: "What happened to The Phone Company?"

It comes from householders confronted with higher rates for local telephone service — and a blizzard of paper in place of the once-simple telephone bill.

It comes from businesses forced to wait months for installation of special long-distance lines.

It comes from telephone users facing unfamiliar choices and charges based on the cost of service — radical changes for an industry used to limited choice and hidden costs.

It comes from political demagogues posturing in front of the voters — instead of letting economic incentives create a superior communications system for the 21st century.

The old arrangement was simple: Telephone companies had exclusive rights not only to bring service into homes and businesses but also to provide equipment and long distance service. Local service and installation were priced way below cost; long-distance callers and users of special services were overcharged to make up the difference.

But businesses that used long-distance a lot began establishing their own communications networks to get out from under inflated toll charges — and others got the same idea. Creative minds invented telephones and switching equipment that was better for some phone customers than that available from Ma Bell or her independent little sisters.

Once the equipment and long-distance monopoly was breached in the 1960s and '70s, the break-up of AT&T was almost inevitable. AT&T itself agreed to give up part of its business, the better to compete against its new rivals.

The old days of The Phone Company indeed were simpler: We were deprived of choice and the economic realities were hidden from us — just as in a totalitarian society.

But we don't award pizza monopolies just because it might be neater to have only one set of carry-out trucks on the road; we believe the public will be better served by pizzerias competing in quality, price, and service. Stifling competition runs against our most basic economic principles.

There are short-term problems and confusion as the industry and its customers adapt to new realities. Regulatory agencies and operating companies are working on these problems. For example, they have found ways to assure economical telephone service to the poor and elderly.

But we must be willing to give up unjustifiable subsidies for middle-class users — in reality a hidden tax that hurts us all. We must permit the competition and creativity that can take us into a dynamic telecommunications era — one in which the USA can lead the world.

The challenge now is to resist the cries to roll back the clock. Rather than hang onto the vestiges of stagnant mo- poly, we must let the benefits of the new, competitive munications industry flow.

Exclusive Interview

A new regulatory environment: a state view

Philip R. O'Connor is chairman of the Illinois Commerce Commission (ICC). In a recent conversation with Executive Editor-Features Larry Lannon, he discussed the innovative ways in which telecommunications regulators should respond to the transition in the industry which is transforming it from a monopolistic to a competitive industry.

Larry Lannon: How real and important is the bypass threat? What can state regulators do about it?

Philip R. O'Connor: Bypass is a real threat. To the extent that regulators do not respond to the realities of competition that come out of changes in technology and allow pricing services more in accordance with costs, they are inviting bypass.

To the extent that there is bypass, you are obviously degrading the base of local telecommunication services and, therefore, leaving a smaller number of users basically to support the same highly capitalized network.

So it is a real threat. Anybody who says bypass is not a real question just does not know what he is talking about.

Pricing is the issue. If there is bypass, it means there are some services which are overpriced and some that are underpriced in terms of cost. The job of the regulator is to try to make sure as best as possible that there is an even playing field for all competitors. To do that, you have got to have a proper pricing approach. The best pricing approach is that once there is competition, you have to leave pricing to the market[illegible]: you do not run around tryin[illegible] every competitor's price. That would be pretty unproductive.

The ICC has had a lot of experience with local measured service [LMS] pricing. Is LMS a fair pricing method?

Our experience in Illinois on local measured service is pretty good. What we find is that, with the proper kind of educational approach to consumers, a pretty good majority of consumers feel that local measured service would be better for them. What they begin to discover is that they have been subsidizing other high volume users of the system.

I just do not understand the approach that is taken by some people who would anoint themselves as the protectors of consumers who say that the flat rate is a lot better for people. Really, for most people, it is not. It is probably better for those people who are self-appointed consumer representatives because they use the telephone a whole lot.

Local measured service is probably far and away the best way to go. The problem is that regulators and telephone companies have got to approach it with some caution, care and understanding. It is something new. They need to give people the opportunity to become acclimated to it and to understand the theory. You do not just go around imposing it on people.

When an exchange in Illinois is going to go to local measured service, we will spend anywhere from 1 year to 6 months under the flat rate system giving people a dual bill. They have a bill under the existing flat rate but they also get a bill showing what the charges would have been under LMS.The majority of them find out that LMS would be cheaper.

Have telcos moved rapidly enough toward LMS?

It is hard for me to talk about the rest of the country. We have been trying to move along here. It is like a lot of other things in life: Most things should go along a little more quickly but people are afraid, companies are afraid, they are not accustomed to it. There is resistance at the regulatory level where in reality that is where resistance should be least. They probably haven't moved along as quickly as they should.

Telephone companies are just as afflicted with inertia as everybody else. Even though there has been a technological revolution in telecommunications that does not mean that the people, by and large, in the industry are all that innovative. There has been a pretty traditional approach for the bulk of the telecommunications business.

It does not surprise me that it would take a lot to boot people into a new way of doing things.

Remember, we are only gradually withdrawing the subsidy that runs from the most urbanized areas of the state to other areas and, at the same time, we are moving toward more in

'Local measured service is probably far and away the best way to go. The problem is that regulators and telephone companies have got to approach it with some caution, care and understanding. It is something new. They need to give people the opportunity to become acclimated to it and to understand the theory.'

the way of local measured service and getting rid of things like extended area service. You have got to take each step at a time and recognize that you do not get there overnight. On the other hand, if you are not going to get there overnight, you still have to start the process.

My fear is that in a lot of other places people are just waiting for the world to change all by itself. It probably won't.

How do you assess the success of the rate deaveraging policy in Illinois? As a general rule, should customers in less densely populated areas which have higher non-traffic sensitive [NTS] costs pay higher rates than customers in more densely areas to account for the difference in NTS costs?

You really have two questions there. One is asking the question, should people pay prices which are based on some relationship to cost?

Sure. People who cause costs ought to be the ones to pay the price. If, indeed, it costs less to provide a particular service in an urban area, in this case telephone service, then urban users should pay less. On the other hand, there a lot of other things that cost less to provide in other places in the state and you pay the difference on that.

With respect to how successful the effort has been to deaverage prices here, what you are really talking about is all Illinois Bell territories which previously had one subscription price. Now there are three. There is downtown Chicago, which is called Area A. Area B consists of the rest of Chicago plus several suburbs. Area C is the rest of the Illinois Bell territories, which are a lot of suburban areas and some downstate urban communities. In terms of success, the real issue is whether or not the prices that we move to are sufficient to deter bypass of an uneconomic nature. We do not know the answer.

The other measure of success has to do with the question of whether deaveraging has inflicted a burden on ratepayers in certain conditions that is not acceptable. I do not think that that has happened. Frankly, people are very accepting that we have given a rather small increase in rates in those areas that had higher costs and, therefore, now require higher prices.

Should competition be permitted in intra-LATA [local access and transport] services? If it were, how would local rates and Independent telcos be affected?

We have petitions on file for intra-market service area, or intra-MSA service, which would be competition for toll traffic in the metropolitan area of Chicago to carry traffic between the city and suburbs, for instance. My general position is that if the technology permits competition and makes it possible to provide competing services because the capital investment is relatively small, then there ought to be competition.

On the other hand, we should not be in the business of having prices set in a fashion that encourages uneconomic competition, that is, creates competitors who are able to come along and charge a lower price for something because the regulator has the price higher for that particular service as it is provided by the traditional supplier in order to subsidize other kinds of services. That is uneconomic competition.

How would small Independents fare if intra-LATA competition were permitted?

That is really not a problem at this point because most of those market service areas, or LATAs, where you have the smaller companies are not the kinds of places that at this point in technology would indicate competition is a reasonable alternative. We're really not faced with that.

Now, if way down the road, it makes a lot of sense to have competition in more rural areas of the state, fine; the small companies will bear up under that.

They will either survive or they will join with other companies. But the market ought to take care of that if the regulators do their jobs and really make sure that we provide a level playing field so that you do not have one player in the game that has an advantage over the others.

Can you tell that you have a level playing field before someone gets hurt pretty badly?

You can make a pretty good guess. First of all you listen to all of the potential players. If somebody is alleging disadvantage, then it gives you reason to look more closely. There are some measures you can look at. If, indeed, one player is being required to charge more or less for something and is not recovering cost on something, that is a pretty good measure of disadvantage. You do not have to know how much damage it will do. You can surmise there will be some level of damage and eventually

The market will find those places where uneconomic competition will spring up.

Some people think that it is peculiarly difficult to find out what things cost in the telephone business. Have you found that to be true?

It is not easy because we have gone out of our way the past 30 years to make sure we do not know. Periodically somebody would figure out how much it cost to run the nation's entire phone system, basically, and then it would be broken up on the basis not of cost, reach, service or market but rather based on some other kind of judgment about how the money ought to be parceled out.

Illinois Bell recently filed a unique tariff for Centrex service which is designed to make Centrex more competitive with the long term lease or purchase of PBXs. The tariff basically would move Centrex from broadly-averaged, service oriented rates to facility-based rates. The ICC has not ruled yet on the tariff, but could you discuss your general opinion of the idea?

No, because we still have a case docketed and I have not really formed any opinion on that particular tariff.

It is fair to say though, that to the extent that Illinois Bell, or any other company, is providing a particular service to high volume, business customers, that in order for that service to survive, it has to be priced and managed competitively because there are others who are willing to come in and provide like kinds of services. Again, the market is going to tend to give direction to everyone on how to do it and there is not going to be any permanent solution. There will be new pricing theories that will come up for those kinds of high volume, competitive services.

We are taking a look at it. I don't have any particular opinion about that tariff itself. Obviously, we are not interested in forcing tariffs on Illinois Bell that put it at a competitive disadvantage. It would not be fair to the company and it would not be fair to the consuming public either.

This seems to be one of those cases in which the telco could get stuck with excess capacity due to decisions made long ago. I know you do not want to discuss this particular tariff, but do you have any thoughts on that general kind of predicament?

The problem with capital recovery is probably one of the top issues here facing regulators and the traditional telephone companies. It arises out of decisions that were made a long time ago. The failure, for instance, to have appropriate depreciation schedules for many years is now resulting in a situation in which there is a real capital recovery problem and you may indeed have stranded investments.

One approach is to simply have those telephone companies write that off as a stranded investment, if indeed it becomes obsolete technologically. Clearly, some of that is going to be done; there is no question about that.

The problem, though, is that if indeed we have the traditional player that has the primary responsibility for providng basic local service and if that supplier has a lot of stranded investment, there will be a real tendency for that player to try to, on the one hand, put all of its new money into catching up in the highly competitive market spheres while neglecting basic service and letting that service become technologically inadequate; or, on the other hand, trying to find ways to recover that stranded investment with a smaller and smaller base of customers. One of the things that we have done in Illinois in the most recent Illinois Bell case—and it was a tough decision—was to allow for accelerated recovery by Illinois Bell of inside wiring. By the end of 1986, Illinois Bell will have made full recovery on that inside wiring and it will be off the books.

Making that decision accounted for two-thirds of a more than $90 million dollar rate increase. We could have foregone that and had a really very small, unnoticeable rate increase. We made a judgment that for the future of the consumers it was better to pay those dollars now and make much greater savings down the road and also make sure that Illinois Bell was in a position to respond competitively from an investment standpoint on new technologies.

You never really win for people by doing things that make it difficult to take advantage of new technologies. You really don't. I think history is pretty clear on that.

Will the ICC take into account the relative success of Ameritech's unregulated activities and, therefore, of Ameritech's overall earnings in setting Illinois Bell's rates? Should a distinction be made between the earnings of a parent company with substantial involvement in unregulated markets

'Viewing the telecommunications system as one single market in which huge subsidies can be moved back and forth simply is not reality any longer. There are increasing numbers of submarkets in telecommunications that are becoming competitive. As those submarkets become competitive, the role of the regulator eventually diminishes. . . .'

and the earnings of a subsidiary involved in regulated markets?
We need to make distinctions but the distinctions have to run in the direction of making sure that the regulated activities do not subsidize pricing or losses or development in the non-regulated areas and by ensuring that the non-regulated activities are not unfairly expected to subsidize the regulated activities, either. That is a tough accounting issue but that ought to be the philosophy.

Is that politically a difficult distinction to make?
It may be. I do not think that we are facing that problem in Illinois. We are a very low cost state. We do not have a lot of subsidy currently running back and forth within the telephone system here. There is some, but not the kind that you find in a lot of other places nor nationally.

Also, there has been atmosphere in Illinois in the legislature and in the regulatory ranks of real responsibility on these issues, recognizing that if you do not have a top quality telephone system, then you simply have one more reason to use to explain the decline of economic development. In Illinois, we have been successful in recent years in expanding economic activity in those areas that are highly dependent upon quality telecommunications services, whether that is insurance or banking or any of those kinds of things. Those areas have grown rather rapidly in large part due to the relatively low cost of telecommunications here.

Some BOCs have indicated they intend to bypass local exchange companies, including themselves, when necessary. How do you view this prospect?
I've heard some of that. There may be a little bit of that around. But if that happens that is a very clear signal to vote the operating company and to the regulator that either one is doing the job.

We would have to look at it pretty closely and find out what exactly is motivating it, why it is happening. If it is happening as a result, let's say, of that operating company not taking proper steps to price services correctly so that they are engaged in uneconomic bypass against themselves, that is a very clear indication that the company is not doing its job and the regulator is not doing his job.

On the other hand, there may be some technological kinds [illegible] things that happen that make th[illegible]acy of pricing moot. Perhaps [illegible] of service that is not and cannot adequately be provided by the local exchange. That is a real possibility; high speed data transmission systems, for instance. That might well be an area which is right and appropriate for bypass by whoever it is that does it, whether it is the local exchange company or somebody else.

It is not a problem today. We pay close attention to it, but we are not suggesting today that each case of what might be called bypass has the same solution.

Should local exchange companies be allowed to offer enhanced services, like data service, which the BOSs, for instance, have been forbidden to offer?
I would like to see a situation ultimately where as many players as possible are out there in the marketplace beating one another's heads in trying to offer better services at lower prices to the consumers. That's the way the business ought to be done in this country.

I think there may be a period in which some companies might be withheld from the market, but only to the extent that you have sort of an incubating period for other players. These kinds of companies—the BOSs and some of the large Independents—do have tremendous market position and maybe you want to give some brief opportunity, a couple years, for others to enter the marketplace.

How would you define in advance how long that period should be?
I don't think you can. Regulators and others have to be under an obligation to rather frequently reaccess what the situation is.

You really can not predict when something will become competitive, when there will be enough of a spread in market share. You only really know that by trying to look at it rather frequently and making the decision on withdrawing [illegible]lation—that is really what it is—at the appropriate time.

> **'One of the problems that has always existed in the telephone system is that we give everybody a subsidy, which, of course, does not make any sense. Subsidies should go to people who need them. We don't yet have a plan. . . that says how it is we decide somebody needs some assistance on telephone rates.'**

What kind of criteria would you look at when you are examining the market?
The number of players or competitors, market share, growth in market share, change in market share, whether or not there is a price disparity, how closely prices are moving toward one another, availability of the service to all consumers willing to pay the price, that kind of thing. The normal sort of measures work for competition in telecommunications that we are familiar with in any number of industries.

What do you think of the FCC's proposed access charge plan for carriers? Will the FCC's plan serve to consolidate AT&T's dominance of the long distance market?
It is very hard to tell. There clearly has to be more in the way of the level playing field than there is under the current rules. AT&T probably is paying a greater premium than it should compared to the other carriers.

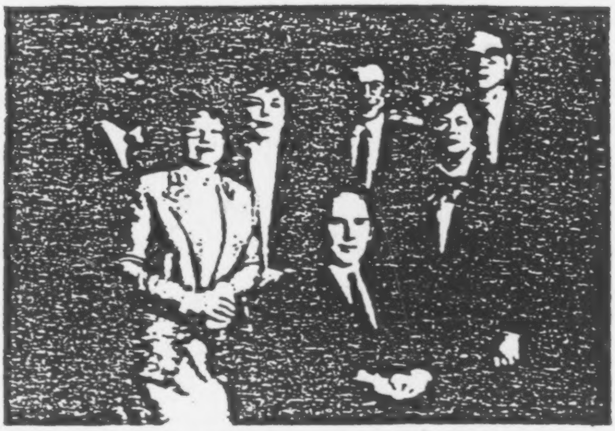
On the other hand, there needs to be equal access if you are going to charge people the same price. An argument can be made to have a certain disparity between what AT&T pays for access and what some of the other carriers pay for access. It should not be so great, however, that you can have within 2 years a hemorrhaging of high volume business over to the competitors with AT&T having a very difficult time trying to retain those kinds of customers and basically just having low volume customers left on the system.

Do you think that disparity would be easy to define? If so, why has resolving this issue been such a problem?
I don't think we have a problem in Illinois. We set intrastate access charges. Unfortunately, the FCC delay has upset things a little bit. The

access charges within the state were about 80% of what the federal charges would have been interstate, so we would have avoided the problem of traffic running outside of the state and back in—actually being intrastate but acting like interstate. Secondly, we had some disparity between the other carriers and AT&T but we do not think that it was so great that it gave an excessive advantage to new players. In fact some of the evidence on that score was that both AT&T and the other carriers complained rather vigorously about the draw we made.

There's a difference between the price AT&T pays for access and the price the other carriers pay. The issue is, how big should that difference be? Is the difference big enough that the other carriers will gobble up the business?

In Illinois, for purposes of intrastate access charges, while we retained a difference, that difference was such that it created a pretty level playing field, simply because you had substantial market position in the intrastate market by AT&T, and they are the only official carrier right now. Any other carrier would just be largely getting into business. It might be starting with a base of its current customers for intrastate. We thought that was a pretty good draw. The indication that it was a good draw was that none of those parties were satisfied with the groundrules.



The commissioners of the Illinois Commerce Commission are (back row, l-r): Andrew C. Barrett, Ruth K. Kretschmer, Daninel W. Rosenblum and Charles G. Stalon. In the front row (l-r) are: Susan C. Stone, Chairman O'Connor and Mary B. Bushnell.

What do you think of the FCC's proposed access charges for very small business and residential customers? Will they drive a significant number of users from the network. If so, what, if anything, should be done about it?

First of all, the FCC plan would not drive many users at all from the network. I have supported the FCC end user access plan to the extent that it is better than the current separations and settlement process. On the other hand, there is a much better solution overall which we have proposed and advocated.

The notion of user access charges should simply be abandoned for this reason: They are not access charges at all. What they really involve is the question, how do you reduce the subsidy for interstate long distance to the local network? And, then, how do you recover those local network charges? What the FCC ought to do is take on the job that it should have, which is setting interstate long distance rates based on cost. Those rates ought to be deaveraged. If it costs less to call between Chicago and St. Louis than it does between Chicago and Des Moines, then, by golly, the rate ought to be lower.

The extra ingredient in this ought to be that the FCC should then tell each state commission that it is the state's problem to figure out how to recover local costs. If the state commission makes the decision that it wants to recover what are essentially local costs by loading those onto the access charge against the long distance carrier and, therefore, put that on to the long distance rate for calling in and out of that state or locality, so be it. In Illinois, as a low cost state, we would be able to recover those costs through minimal increases in local charges, yet it would be much cheaper to call in and out of this state. If, on the other hand, in Florida, Arizona or somewhere they wanted to continue to subsidize local rates by charging long distance customers to call in and out of their state, fine, let them. Eventually the market will pressure the recovery of those costs locally. But there is simply no longer any justification for long distance customers in Illinois to continue to funnel huge amounts of money to other states.

In 1984 we will pay out about a $100 million dollars that will go into the national pool and be distributed to other places. A state like Florida will get something on the order of a quarter of a billion dollars.

It's not fair.

The market ought to work. They ought to get rid of this notion of access charges. They ought to stay with the federal issues, which are interstate rates, and leave local recovery to each state to figure out how to do it on its own.

If you were a federal regulator, would you be concerned about people who live in certain places—for instance, in isolated areas in the far West—dropping off the network?

We are worried about that. As a matter of fact, we have on numerous occasions proposed that there should

'I would like to see a situation. . .where as many players as possible are out there in the marketplace beating one another's heads in trying to offer better services at lower prices to the consumers. That's the way the business ought to be done in this country.'

'The failure of regulators to understand that a lot of this industry is competitive now simply will mean that they will be hurting the very people that they think they are helping—the consumers.'

be a rural subsidy fund. You would not need much money at all from the national system to help prevent astronomical costs for people in very rural areas. That is not the problem.

What we have here is a lot of people in the political arena who, in order to keep rates down in *urban* areas in the south and in the west, cloak themselves in the mantle of the pioneer and act like the only real issue is the rural areas. That is not true. They are really using the rural areas as a way of retaining very large subsidies from urban and rural areas of the north to largely urban areas in the south and west.

That's what this issue is all about.

One of the problems that has always existed in the telephone system is that we give everybody a subsidy which, of course, does not make any sense. Subsidies should go to people who need them. We do not yet have a plan on this that says how it is we decide somebody needs some assistance on telephone rates. It is just another issue of how you pick up money from one part of this country and move it to another part of the country without devaluating the need of one place or another. In large part, in the telephone system what we are doing is taking large amounts of money from the people in the states which have been the hardest hit by the recession and giving it to the people who fared the best.

It is like the income tax that I pay in Chicago going to pay for very large water projects for people in Arizona and southern California. They don't even invite me down for a swim.

What are the proper rates of federal and state regulation in the new circumstances? Specifically, does state regulation have anything but a short term future in an industry that is increasingly competitive and driven by a technology that cannot be confined to geographic boundaries?

There are two responses. One, with respect to the division of labor between federal and state regulators, federal regulators ought to deal with federal questions and state regulators ought to deal with state questions. One of the problems we've seen in this is that the FCC—while well intentioned—has nevertheless somewhat overstepped its bounds and got too deeply into the business of trying to find a federal solution for the recovery of local costs, which has resulted in the access charge debacle.

The state regulators, however, have got to accept that they have got some responsibilities. For instance, another area which ought to be a state burden but one which the states probably have not faced up to is the reason for the FCC's assertion of jurisdiction on depreciation schedules. There are a lot of states which were not going to face up to their challenges as well as they should have. That has to be the kind of division of labor.

The question of how much state regulation there will be or what the future is is not so much that it is short term as that the nature of state regulation should be very different over the next several years than it has been in the past. The watchword should be flexibility.

State regulators have to realize that technology and divestiture—and really divestiture came out of the changes in technology—make it absolutely clear that traditional approaches to regulating telecommunications will not work anymore. Viewing the telecommunication system as one single market in which huge subsidies can be moved back and forth simply is not reality any longer. There are increasing numbers of submarkets in telecommunications that are becoming competitive. As those submarkets become competitive, the role of the regulator eventually diminishes but, in an interesting way, is much more important in the transitional phase than it was in the traditional phase.

The regulator really has to be smart and really has to be able to focus in on pricing decisions and so forth that make sure that the future that they are involved in structuring in telecommunications is not one where you have a two-tiered market, where you have residential and other lower volume users basically being second class citizens in telecommunications and high volume users being first class citizens with their own high quality system and with the others left behind with a decrepit one. That is the real challenge and unfortunately a lot of state regulators do not yet see the challenge in those terms.

How important is it for regulators to be aware of the telcos' need to respond flexibly to developments in the competitive marketplace?
The failure of regulators to understand that a lot of this industry is competitive now simply will mean that they will be hurting the very people that they think they are helping—the consumers. To think that through regulatory edict and wishful thinking you can redirect the course of really rapid and significant technological change is just crazy.

You can't do it. History really tells you that.

The best thing to do, the best way to help people is to try to help that technology operate in a competitive environment that gives people as much of the benefits as possible.

How do you as a regulator communicate that thought to other regulators?
I give interviews to TELEPHONY.

Anything else?
Sure. We go to neighborhood meetings. We're in contact with other regulators and we publish papers and send our orders around, put our press releases out and try to have good discussions with people so that we learn and so hopefully they learn as well.

Is that opinion more generally accepted by regulators these days?
It is becoming more recognized. There is still an emotional reaction to it. Many people kind of wish it would all go away and somehow everyone is going to wake up and divestiture will just have been a bad dream.

There is a lot of rhetoric about it, but when you look at a lot of the orders that have come out, there are many high quality orders in a number of the states where they really are responding to the new reality.

Now that the Bell System has been split

up, should regulators look at BOCs and large Independents in the same way?

The way we try to look at all of them is based on a general principle. If the provider of a service is a monopolist and has monopoly power, or if that provider is far and away a dominant provider, then it has got to be treated differently than if it is a supplier or provider in the context of a highly competitive environment. That is an underlying principle of a legal and regulatory approach to business in this country.

We should not be in the business of regulating activities which are competitive. Competition will take care of things like price and quality of service. I'm not talking here about safety or things like that. On the other hand, where there is a monopoly, you need to exercise some kind of regulatory oversight. There will be periods during which a former monopoly supplier is far and away the dominant supplier and needs to be treated somewhat differently, although it is very important that the regulator not treat that provider as dominant long past the time when it is in fact dominant. Otherwise you again create this whole problem of disadvantaging one of the players to the ultimate detriment of consumers.

Should the telecommunications industry be completely deregulated? If so, when should that happen? Also, are there plans to introduce legislation which would deregulate telecommunications in Illinois?

First of all, I do not even think it is a question of deregulation. That word means too many different things to too many people.

The real issue, and actually I've already answered it, is that to the extent that you have a competitive environment, competition does a better job in providing for the lowest possible price and the highest quality service than does oversight by some group of bureaucrats. On the other hand, if you have a monopoly situation, and there will be portions of the telecommunications market that remain monopolistic for quite some time to come—much of the local exchange traffic, for example, is going to continue to be monopoly-provided—that needs to continue under some kind of regulation that prevents monopoly profits and ensures a reasonable level of quality.

That is really the issue. The difficulty would be the ability of regulators, legislators and the people in the telecommunications industry as well as consumers to distinguish between environments that are competitive and those which are not and the willingness to take appropriate action and become more flexible in dealing with competitive situations.

Several weeks ago, Gov. James Thompson of Illinois sent to the legislature a message on utility regulation. One of the elements of that message essentially called upon the legislature to begin considering the need for taking telecommunications out of the Public Utilities Act and having an Illinois Telecommunications Act that approached the problem on the basis of recognizing that we do not have a static, monopolistic utility anymore in telecommunications. What we have is a situation in which many different submarkets will develop and that will be increasingly competitive. We have to recognize that. It is his hope that the legislature could act either in this session or, at the latest, next year.

So some progress has been made. In fact, there is some legislation already introduced that would move us toward a more flexible approach with respect to long distance within the state.

Again, it is absolutely critical to remember that we are talking here about market segments. It is not just one telecommunications business anymore. To the extent that you have competitive activity, that mitigates the need for a lot of regulatory oversight. A very good model for this is the area of insurance regulation where you may have rates that are filed but not necessarily approved and where some rates can, upon some showing later, be disapproved if they prove to be fairly discriminatory or whatever. But in a competitive marketplace there may not be a need for the kind of prior approval and full blown analysis that you need when you have a monopoly. But again, you can not do it if you have a monopoly.

> **'The watchword should be flexibility. State regulators have to realize that technology and divestiture—and really divestiture came out of the changes in technology—make it absolutely clear that traditional approaches to regulating telecommunications will not work anymore.'**

Does the ICC get involved in the educational aspects of LMS?

Yes, very much so. We have got follow-up in the local areas to find out what people think. Our consumer division works very closely with local officials and community leaders. We work with the telephone company in putting out the form of the dual billing. We make sure that people understand it. We've been very deeply involved.

And that's been working out well?

Oh, yes. Very much so.

Assuming telcos do not adopt LMS, what is the future of local rates?

As a general principle you have to go to usage sensitive rates. There will be those kinds of situations where it really does not matter a whole heck of a lot; for instance, in rural co-ops it may not be very important.

The real issue simply has to do with whether or not there are technological developments that make bypass an option for certain users of the service and whether the lack of local measured service is causing subsidies to move around that are so large that the savings under the bypass option by these high-volume users are attractive enough to make that move. You will not really know in many cases until it happens. Our preference is to make sure that as little of it happens as possible on an uneconomic basis.

If it happens simply on the basis of better service or better price that arises out of greater efficiency, that kind of thing, that's fine. There is no great loss there.

But if it arises out of some subscribers being forced to subsidize others, voting with their feet, then that is a real problem. □

THE PUSH TO 'BYPASS' LOCAL TELEPHONE COMPANIES

Striding to his window overlooking downtown Manhattan, Richard F. Morrison, director of information systems for Shearson Lehman/American Express Inc., gestures to nearby rooftops. On top of several skyscrapers perch the semispherical shapes of microwave and satellite dishes, silently carrying voice and data traffic to and from New York's financial center. "You want to see bypass?" he asks. "There's bypass. And there. And there. Everybody's doing it."

To most people, "bypass" conjures up images of heart surgery. But to the telecommunications industry, it refers to the growing number of ways that big businesses, real estate entrepreneurs, and long-distance carriers are bypassing local phone company networks by using alternative communications links. The driving force is lower cost: Users find they can cut their phone bills by exploiting new technology and the subsidy-ridden system of phone pricing left over from the days of a monopoly American Telephone & Telegraph Co. Even AT&T, which eight months ago owned more than 80% of all U.S. local phone networks, is now aggressively trying to bypass its former offspring by going directly to major customers.

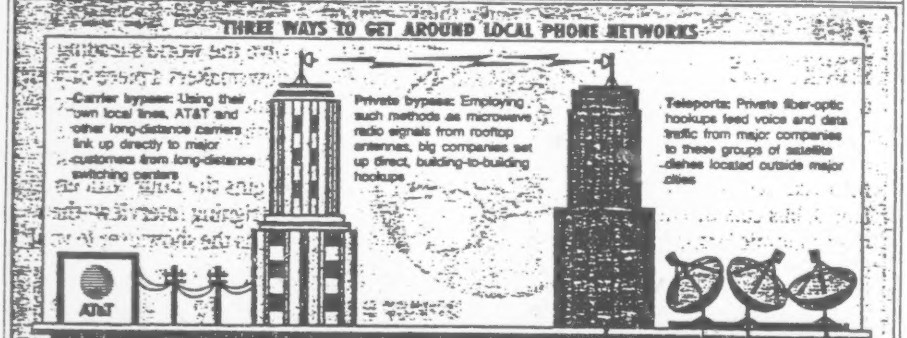
This practice has fueled a firestorm of controversy: Local phone companies say they are losing millions in revenues to people who are violating what is supposed to be their exclusive franchise, while the International Communications Assn., a group of corporate users, says the phone companies are exaggerating the problem to gain regulatory advantages. Whatever the merits, if bypass becomes commonplace, residential phone rates could skyrocket as consumers bear more of the costs of existing plant. Warns Mark S. Fowler, chairman of the Federal Communications Commission: "Bypass is the greatest threat to affordable telephone service."

NEW ENVIRONMENT. At the heart of the controversy lies the time-honored goal of U.S. telephone policy—universal service. For years local telephone companies charged long-distance customers and big businesses far more than the cost of providing them service—to keep local rates low and ensure that phone service was available to all. In New York, for instance, residential customers pay $7 to $8 a month in fixed fees, about one-third of what it costs New York Telephone Co. to provide them service. That formula worked fine in a monopoly environment. But once inexpensive alternatives to the phone company's copper wire became widely available, the closed system of subsidies began to leak like a sieve.

The most common form of bypass systems now are corporate-owned communications hookups, using private microwave towers or two-way cable TV lines leased from cable companies. Eastern Management Group, a New Jersey market researcher, found that 31% of the 500 largest U.S. corporations are using some form of bypass and that an additional 13% expect to do so by 1987. New York Telephone claims bypass costs it almost $200 million in forgone revenues last year. Others estimate similar losses. But these figures are difficult to verify, because nobody knows how much traffic travels over private systems.

Why do big users want their own communications systems? To begin with, most say that local phone companies are often unable to fill their specialized needs, such as high-speed computer data links. But the low cost of new technologies such as microwave radio, combined with the tax advantages companies can derive from depreciating their own equipment, makes setting up a private link almost irresistible. Shearson's Morrison figures he can pay back the cost of a building-to-building system in as little as six months.

Still, most observers do not see these private corporate systems as a long-term



THREE WAYS TO GET AROUND LOCAL PHONE NETWORKS

Carrier bypass: Using their own local lines, AT&T and other long-distance carriers link up directly to major customers from long-distance switching centers

Private bypass: Employing such methods as microwave radio signals from rooftop antennas, big companies set up direct, building-to-building hookups

Teleports: Private fiber-optic hookups feed voice and data traffic from major companies to these groups of satellite dishes located outside major cities at to local phone companies. For one ng, most big users would prefer not to have to cope with the intricacies of running a communications system. "You take over all the technical jobs that the phone company would have done for you," warns S. I. Gilman, executive director of information resources management at Ford Motor Co., which has no bypass facilities. And while almost all private bypass systems go just from point to point, the phone companies' major business is carrying traffic that goes through a switched network, where one caller can reach anyone else by going through a central telephone office.

Company-owned communications systems are just the tip of the bypass iceberg, however. Numerous other ways to skirt the local phone charges are cropping up all over the country:

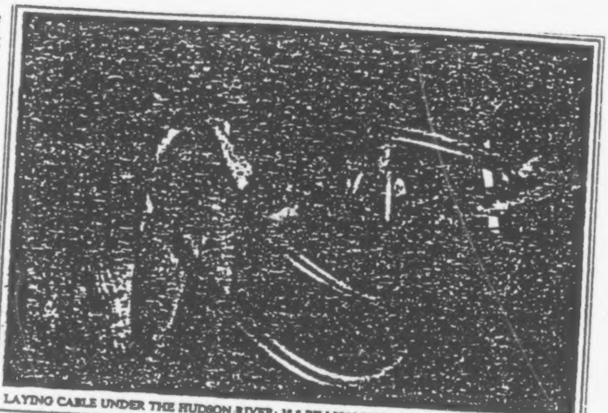
☐ **"Intelligent" buildings.** Growing numbers of real estate entrepreneurs are designing buildings with built-in communications facilities. They then resell long-distance service to tenants, usually making the connection via a rooftop satellite dish. Because this traffic would normally go through local phone lines, the practice costs the local phone company revenues.

☐ **"Leaky PBXs."** Using private lines leased from long-distance carriers, long-distance calls can be sent into a building through its private branch exchange (PBX) and routed into the local network as if they were regular local calls. Because private-line rates do not include any charges for the local phone company's fixed plant, these calls do not pay their share of the local network's costs.

☐ **Teleports.** Most of these "satellite farms" are still on the drawing boards, but when they are built they will suck up lucrative data and voice traffic from major customers. Communications will be sent over a fiber-optic link from a customer directly to the teleport, and from there they will travel via satellite to another teleport or private satellite antenna.

☐ **Carrier bypass.** AT&T and its long-distance rivals are making moves to bypass local networks, routing calls directly to customers instead of first going through the local phone company's lines.

This last bypass method poses perhaps the most serious threat of all to the local phone companies. They can ill afford to lose any part of the payments from long-distance carriers, which account for about one-third of the typical local company's revenue base. Arthur L. Harper, an assistant vice-president at New York Telephone, estimates that it costs his company about 3¢ a minute to carry a long-distance call to AT&T's network, but AT&T pays it about 3¢ a minute for the connection. "Long distance is rapidly becoming a competitive market,"


LAYING CABLE UNDER THE HUDSON RIVER: 38.8 BILLION BITS OF DATA PER SECOND

TELEPORTS: GIANT BYPASSES FOR BIG-CITY MARKETS

Deep inside a train tunnel under the Hudson River, a crew of men works all night to splice segments of a fiber-optic communications cable. When completed, the cable will carry 38.8 billion bits of data per second—the equivalent of 300,000 simultaneous phone conversations—between downtown Manhattan and the New York Teleport, a planned satellite communications center just a few miles away on Staten Island. And because the teleport is being built by Merrill Lynch, Western Union, and the Port Authority of New York & New Jersey, none of the millions of dollars worth of traffic will flow through New York Telephone Co. lines.

A creature of telephone deregulation, new technology, and the high cost of phone service, teleports are springing up in many major cities. The idea is to bundle enough long-distance voice, data, and video traffic to justify building a set of big dish antennas on one site to get bulk discounts on satellite circuits—providing communications gateways to metropolitan areas much the way an airport or railroad station serves transportation.

FIGHTING BACK. So far, more than 20 major teleport projects have been announced, including sites in or near San Francisco, Houston, San Antonio, Seattle, and Columbus, Ohio. Only one is operating, near Chicago. But by mid-1985, several other teleports should be working—and offering discounts of 20% to 50% on long-distance rates.

"The top 50 markets will have teleports within 10 years," says Andy Laguervela, chairman of Satelco, a partner in San Antonio's proposed teleport.

These satellite antenna farms do not have to bypass the phone lines and switching centers of local phone companies. They could, in theory, use the local phone company's network, ensuring that it would still get the "first-mile, last-mile" revenues of hauling traffic to and from the teleport. But in most cases, teleport promoters plan to install their own microwave or fiber-optic links to business districts. That would allow a direct tie-in to the switchboards of corporations and "intelligent" buildings. Phone companies find the prospect unsettling. "If a teleport makes an entry right downtown, then we would be head-to-head," says Charles E. Foster, a vice-president at Southwestern Bell Telephone Co.

To fight back, phone companies are pressing state regulators to enforce local network franchise rights and allow them to offer cut-rate business service. Others may follow the lead of Ohio Bell Telephone Co., which paid $250,000 for a 20% equity stake in the Columbus teleport, in the hope of positioning itself to provide local links for the dish farm. Its equity position seems to have quieted phone company fears that the teleport would cost it revenues. "Suddenly," says Dale K. Ouzts, general manager of the Ohio Teleport Corp., "there is no talk of bypass or other things that had bogged us down."

says Harper. "If bypass is an effective cost-reduction tool, the carriers are going to take advantage of it."

MCI Communications Corp. is already bypassing, using two-way cable TV lines to allow its customers in such cities as Atlanta and Omaha to send calls directly to a local MCI switching center. MCI has also won licenses in 46 cities to offer a new system, called digital termination service (DTS), which will deliver data traffic from customers at very high speeds directly to its long-distance network. "We're going to get to our customers any way we can," vows H. Brian Thompson, MCI senior vice-president. "We'll go by carrier pigeon if we have to."

Even more worrisome to local phone companies is the potential impact of bypass by AT&T, which carries about 90% of long-distance calls. The company has already asked the FCC for permission to hook up directly to customers (unlike MCI and the other discount carriers, AT&T must file with the FCC before it takes most actions). Although its filing was thrown out for unrelated reasons, AT&T says it will file again. The current laissez-faire FCC just might concur. "From our standpoint, anybody has the right to bypass," says Jerald N. Fritz, chief of the FCC's Tariff Div. "But there are important policy issues, which have to be addressed before it becomes widespread," he adds.

REACHING OUT. If the FCC approves, AT&T expects to start servicing customers directly "within a year," says Richard L. Snowden, director of services conception at AT&T Communications. "We've had over 50 inquiries from major customers," asking about direct hookups, he adds. "We would prefer not to follow that course, but we cannot put ourselves in the position of losing customers."

Although AT&T says it will connect only customers who provide their own lines, observers believe it will soon begin to reach out to customers with its own local links. If true, AT&T might charge rates far below those of the local phone companies just to attract more long-distance traffic. "AT&T could run a fiber-optic cable down the center of a busy downtown street, tap in customers off it, and charge practically zero," hypothesizes John F. Malone, president of Eastern Management Group.

What local phone companies have to figure out is how to battle what they call the "bypass threat." Ironically, some are involved in bypass-type enterprises themselves. Bell Atlantic Corp. is building DTS microwave systems in Richmond and Norfolk, Va. Ameritech has a joint venture to service intelligent buildings. If tenants request a microwave system to connect their building with other, Ameritech just might comply. "If we don't, someone else will," says James J. Howard, Ameritech president.

PRIVATE SATELLITE DISHES SIPHON REVENUES FROM THE LOCAL NETWORKS

A more sensible course, all agree, is to try to change the rate structure. Some state utility commissions are already moving on the issue. Illinois Bell Telephone Co. is now allowed to charge rural and suburban customers more than Chicago customers, who cost less to serve. And the California Public Utilities Commission is considering banning intrastate carrier bypass altogether. "It's an extreme act," acknowledges Commissioner Victor Calvo. "But it might be taken if it looks like Bell will lose significant amounts of revenue by bypass."

Across the country, phone companies are also winning the right to supply fiber-optic lines and other high-tech services at cost, helping them compete with microwave suppliers and cable companies for corporate orders. BellSouth is marketing a microwave system for data communications in Birmingham, Ala., which the company is free to price against the competition. Southwestern Bell Corp. has filed for similar pricing moves in all five of the states it serves.

SURCHARGES. The FCC has also been reducing the long-distance subsidy to the local networks, replacing it with direct payments by customers to local companies. The goal: to bring the local part of long-distance prices down to cost, thus discouraging carrier bypass. In late May the commission put into effect so-called access charges on multiline business customers that range up to $6 per line per month. It also reduced the amount AT&T must pay to local phone companies by 8.5%—and lowered AT&T's long-distance rates by 6.1%. And on Aug. 10 the FCC approved a $25 monthly surcharge for each private line leased by companies to tap into long-distance networks. This should generate $240 million a year for local phone companies to help offset revenues lost through leaky PBXs.

The debate engulfing the industry now is how quickly these reforms should be phased in—and how far they should go. Most phone companies argue that they should be allowed to price all services according to costs, as soon as possible. Consumer groups counter that the phone companies are trying to destroy what has become an almost inalienable right—access to phone service for everyone. But almost everyone agrees, in private, that a slow, steady move toward change is the most preferable. Says John L. Clendenin, chairman of BellSouth Corp.: "If you try to rush it through, you'll cause unnecessary political and social turmoil." ■

PHONE WATCH

THE FCC GIVES SATELLITE SERVICES SPACE TO OPERATE . . .

Domestic satellite service, nurtured for more than a decade by federal regulators, has come of age. The Federal Communications Commission decided on Aug. 8 that the market had grown competitive enough to allow carriers to raise or lower prices and offer new services or drop old ones, all without asking FCC approval. The move will give new flexibility to such companies as Satellite Business Systems, RCA American Communications, and Western Union. But observers say the action will have little immediate effect on the industry, which has emerged from an infancy marked by a shortage of channel capacity to become one of the most competitive parts of the communications business.

. . . AND RECONSIDERS ONE OF AT&T'S COMPLAINTS

Because of the uncertainties of its newly deregulated marketplace, American Telephone & Telegraph Co. has argued that it should be treated differently from its former local phone companies. AT&T has complained about the cap on its rate of return on long distance at the same 12.75% accorded its former operating companies, even though AT&T faces stiff competition and the local companies continue as monopolies. On Aug. 8, the FCC decided to examine the issue, and observers say the agency may set separate rates for AT&T and its progeny.

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Newspaper Clipping Page 1 of 6

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THE LATEST WAY TO FOIL THE PHONE MONOPOLY

eavy users of telephone services are finding they can bypass the local phone companies and ave a bundle. Bypassing is in its infancy but promises to grow fast and large. How badly it hurts he phone companies depends on whether they join the game.

■ *by Steven Flax*

LOCAL TELEPHONE COMPANIES are watching in dread as more and more customers find cheaper alternatives for many basic phone services. orporations are using coaxial cables and mirowave transmitters to do more things that sed to be handled only by phone companies. hey're moving data from nearby to distant omputers, carrying telephone calls between ffices in the same city, and transferring calls irectly to long-distance carriers like MCI, print, and AT&T. All these activities come nder the heading of "bypassing," meaning hat they circumvent the local phone system. more descriptive term is competition—ompetition for companies that have had moopolies on local phone service for more an half a century.

Bypassing is the local-service counterpart f the competition AT&T has faced in long istance since the Federal Communications ommission opened that business to MCI in 969. (For AT&T's prospects in long disance, see the following story.) A big differnce in local bypassing is that customers hemselves often are the competition, handling the services on their own rather than ying it from another company.

Bypassing, which promises to grow fast nd large, will mean reduced growth and diinished profitability for the local phone ompanies. Much of their revenue comes rom a few large clients. Typically, the 100 rgest customers account for 10% or more f a telephone company's revenues. At outhwestern Bell the top 8% of customers ccount for 60% of revenues. If several large customers set up bypass networks, profits are penalized because phone companies usually cannot cut costs as quickly as bypassing siphons off revenues. How deeply phone companies are damaged will depend on how quickly they respond to the new competition—and how quickly state regulators let them respond.

Industry analysts estimate that local phone companies will lose $100 million of revenues to bypassing this year. If the local companies don't respond at all or aren't permitted to, the lost revenues could reach $10 billion to $14 billion a year by the mid-1990s, up to 10% of the estimated $140 billion they would otherwise collect.

The new competition will produce significant savings for large corporations and other heavy users of telecommunications services. Even small companies may pare their phone bills substantially. A huge opportunity also awaits scores of companies selling equipment and services to help customers get around the local phone systems. Says an entrepreneur: "We'll be happy to grab one out of 20 of the silver dollars that fall off the sides of the Bell companies' steam shovels."

Bypassing has always been possible, but few companies bothered to circumvent local phone systems until recently. The surge stems from innovation and falling prices for coaxial and fiber-optic cable and microwave radio, which have eroded the phone companies' edge in providing many local services. The spread of these technologies has hanged customers' perceptions of how easihey can handle telecommunications on eir own or wit [illegible] dware and systems assembled by others. Says H. Brian Thompson, a senior vice president at MCI, "The genie is out of the bottle."

The genie has many tricks, but most are on display in three applications. The first is transferring data between computers at different locations. Another, which uses the most circuits, is voice communication between, say, a bank and its local branches. When a branch manager dials someone outside the bank, the call still goes over the local phone system. But when he rings headquarters or another branch, the call is routed over the bank's private network.

The third and fastest-growing reason for bypassing is to hook up directly with long-distance carriers. Long-distance carriers pay local phone companies an "access charge" for connecting calls to the local systems. The long-distance carriers then add the fees to their own rates. Customers can avoid the local access charge if they connect their calls directly to the long-distance carrier.

THE FCC'S POLICY on a second kind of access charge probably will accelerate the growth of bypassing. The FCC imposes extra costs on multiline telephone users (typically businesses). Beginning in June, customers with multiple phone lines will pay a monthly fee of up to $6 for each circuit that the local phone company needs to handle their calls. These $6 charges—designed to replace part of the subsidy local companies used to get from long-distance revenues—shift $1.1 billion a year to the bills of multiline customers.

Customers can also escape some of these

ESEARCH ASSOCIATE *Katharine Lenore Zander*

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charges if they bypass the phone company and reduce the load they put on it. "Large customers are going to look at the inflated prices and they're going to start making some business decisions," says Bruce Maxwell, manager of regulatory issues at AT&T Communications, the company's long-distance division.

The experience of companies already bypassing suggests the savings can be prodigious. Westinghouse spent $26 million to build a network linking 12,000 phones at 20 facilities in the Pittsburgh area. Transmitters at each building beam calls through a switching system, which routes them to antennas at other buildings. Westinghouse uses the system only for local intracompany calls; long-distance calls still go through Pennsylvania Bell to a long-distance carrier. Yet Westinghouse calculates that the system will save $66 million in local phone charges over ten years, providing a robust 28% return on investment.

Potential savings have enticed many large corporations. A survey conducted by the accounting firm of Touche Ross & Co. found that a quarter of the 200 largest customers of nine phone companies have set up bypass systems and another quarter have systems in the works. Sears, Citicorp, and Bank of America bypass local phone companies in one or more ways. Citicorp has installed a fiber-optic network under the streets of Manhattan to connect its midtown headquarters with offices in three downtown buildings. The company also uses microwave transmitters to handle interoffice calls.

Large government agencies are also bypassing. New York State and New York City both have private telephone networks. South Carolina is building a $16.7-million microwave system to carry communications between state offices. The state expects to save $100 million over 20 years.

Applications are limited only by the imagination. The MGM Grand Hotel in Las Vegas uses a rooftop microwave transmitter to hook up directly with the local receiver of Starnet Corp., a San Diego-based long-distance carrier. Izod Ltd., the General Mills subsidiary that makes sport shirts with the alligator emblem, bypasses the phone company to send data from its programmers in Manhattan to computers five blocks away. Steven Capriolo, Izod's communications manager, tried for six months to get New York Telephone to install a line. Finally, he turned to Local Area Telecommunications Inc., a New York City company that transmits voice and data. Local Area Telecommunications, the first carrier authorized by the FCC to provide local microwave service, quickly installed a microwave link. "We plan to put voice onto this wavelength and eliminate all local tie lines from New York Tel," says Capriolo.

Local Area Telecommunications is one of a horde of companies rushing to serve telephone customers anxious to cut costs or in need of special services. Equipment vendors are eyeing a market expected to reach $2 billion in sales by 1990. Some produce microwave hardware, others make earth stations for use with satellites, while a third group sells multiplexing equipment that enhances the capacity of communications channels.

AT&T is free to offer sophisticated gear that will help customers circumvent its former subsidiaries, and could become the biggest supplier of all. The University of Pittsburgh is setting up a private network to bypass Pennsylvania Bell, using equipment that will come mainly from AT&T.

A growing corps of companies will design and install bypass systems for corporations that don't want the bother of doing it themselves. Some, like Local Area Telecommunications, transmit only by microwave. Others, like Light Communications of East Norwalk, Connecticut, don't tie themselves to one technology. Light Communications will install turnkey systems using whatever hardware a client wants. "In most cases a bypass facility pays for itself in two years or less," says Chief Executive James W. McNabb. McNabb's customers include Chesebrough-Pond's, the U.S. Navy, and even AT&T, which uses Light equipment to avoid Southwestern Bell and interconnect local facilities in Kansas City, Kansas.

Entrepreneurs are also installing bypass systems to sell office space. Merrill Lynch, Western Union, and the Port Authority of New York and New Jersey have teamed up to build Teleport, a $225-million office park and communications center. Located on Staten Island, Teleport will provide dish antennas so that tenants can communicate by satellite. The offices will be connected to business districts in Manhattan and New Jersey by fiber-optic cable. The developers say it will be ideal for such operations as a brokerage firm's back office, which need instant communications all over the world.

ANOTHER BYPASS venture with a real estate tie-in is OlympiaNet, a $100-million partnership between Olympia & York, a big commercial real estate developer, and United Telecommunications, which operates the second-largest non-Bell telephone system in the U.S. OlympiaNet will offer Olympia & York tenants an assortment of special telecommunications services, including switching, cheap long distance, teleconferencing, and electronic mail. "It gets the private network investment off a tenant's balance sheet and relieves it of telecommunications management," says Philip Siller, an Olympia & York vice president.

In an equipment venture, Motorola and IBM have developed a tiny two-way data communications terminal. The portable device, called PCX, uses radio waves instead of phone lines to communicate with remote computers. Salespeople and technicians in the field can punch in orders or get answers to questions without using telephones. IBM plans to supply its field representatives in 250 cities with these, reducing the use of the telephone network.

Upstarts are even challenging local telephone companies for a piece of the more than $1.2 billion collected by pay phones each year. The most visible new competitor is Tonka Tool Co., a Minnesota outfit that gets most of its $4 million in revenues selling machines for cleaning automobile radiators. Tonka started making pay phones last year after its salesmen reported that gas station owners were grumbling because they get to keep so little of the money deposited in their coin boxes. Customers drop $350 to $400 a month into a typical gas station phone, of which the station owner gets only $20 or so.

Tonka's distributors have sold about 5,000 phones at prices ranging from $300 to $900 (the cheaper models work only for local calls). Sales have been high enough to trigger skirmishes with several local phone companies. The companies argue that Tonka's phones violate tariff rules, and have cut off service to some of them. The terminations have prompted complaints to regulators in nine states, who say they will hold hearings on the matter.

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Phone-company resistance is already fading. Northwestern Bell concluded that private pay phones are inevitable and proposed new tariffs to accommodate them. Gasoline stations would get more money than they do now, but Northwestern could collect a lot more than it gets for running a standard business line. A Tonka attorney says a dozen other manufacturers are poised to leap into the market if regulators approve private pay phones elsewhere.

Large as the bypass threat looms, it could become even larger if AT&T dives into the business on a grand scale. AT&T's incentive to bypass is mammoth. This year it will pay local phone companies $17.4 billion to handle the local part of its long-distance service, and it pays far more per call than its competitors. AT&T could avoid many of these costs by hooking up directly to large customers. But Congress still worries about the effect of the AT&T split-up on local phone rates. Any action AT&T takes that deprives local companies of revenue, pressuring them to raise local rates, is bound to stir up political trouble. Says Bradley V. O'Brien, vice president of research for the Perspective Telecommunications Group, a consulting firm in Paramus, New Jersey, "If AT&T bypasses, it'll bring down the hammers of hell."

Even so, the competitive situation might make bypassing irresistible in the future. William G. McGowan, chairman of MCI, AT&T's biggest long-distance rival, says he would prefer not to bypass phone companies to get local distribution. But Bert C. Roberts Jr., president of a subsidiary, MCI Telecommunications Corp., says that the company is "keeping an oar in the water." MCI is developing digital microwave systems in Washington, D.C., and Downers Grove, Illinois, to hook up with customers directly, and has been authorized by the FCC to do the same in 40 other cities. In addition, MCI has ventures with cable TV operators in Omaha, Fort Lauderdale, Atlanta, and other cities to use coaxial cable to connect with customers. If MCI and other long-distance competitors offer cheap direct connections, AT&T will have to match them.

None of this means that phone companies are cripples in the making. They have plenty of competitive resources. Foremost is the ubiquity of the phone system. Local calls make up about half of most customers' telecommunication traffic. The recipients of most of those calls are connected only to the public network.

The new technologies [illegible] available to the local phone companies as to private network builders, and most Bell operating companies are aggressively installing them. Fiber-optic cable has become the norm for large installations by New Jersey Bell. And since divestiture the Bell operating companies are free to use any manufacturer's equipment. This lets them bid more aggressively for jobs. During the competition for Exxon's bypass system, which links the company's Manhattan headquarters with two New Jersey offices, AT&T was ruled out because it could offer only Western Electric switching equipment, which didn't have integrated voice and data capability. New York Telephone offered more sophisticated switches built by Intecom, a small equipment supplier, and won the job.

INDUSTRY ANALYSTS believe that if the local telephone companies compete aggressively to bypass themselves by setting up private networks for large customers, they could keep much of the business they would otherwise lose. However, the phone companies are not masters of their fates in one crucial respect. State regulators generally prohibit phone companies from offering volume discounts or special deals to large customers. They require prices to be averaged for broad categories of service no matter what the costs of the different services within the category. This wasn't a great drawback for a monopoly. But in a competitive environment where bypass systems are being aggressively marketed, the inability to competitively price services would be insurmountable.

Some regulators have ruled in favor of phone companies lately. Florida recently encouraged competitive tariffs, and public utilities commissions in the seven states served by Bell Atlantic allow it to charge different prices for services that used to be lumped together.

But rulings on such issues will roll in slowly, state by state. Inevitably, state regulatory bodies will have some members who are wedded to holding down residential rates with subsidies from overpriced commercial service. The phone companies' ability to compete will critically depend on how fast their regulators allow them to adjust to the new environment. Their competitors don't have to wait. ■

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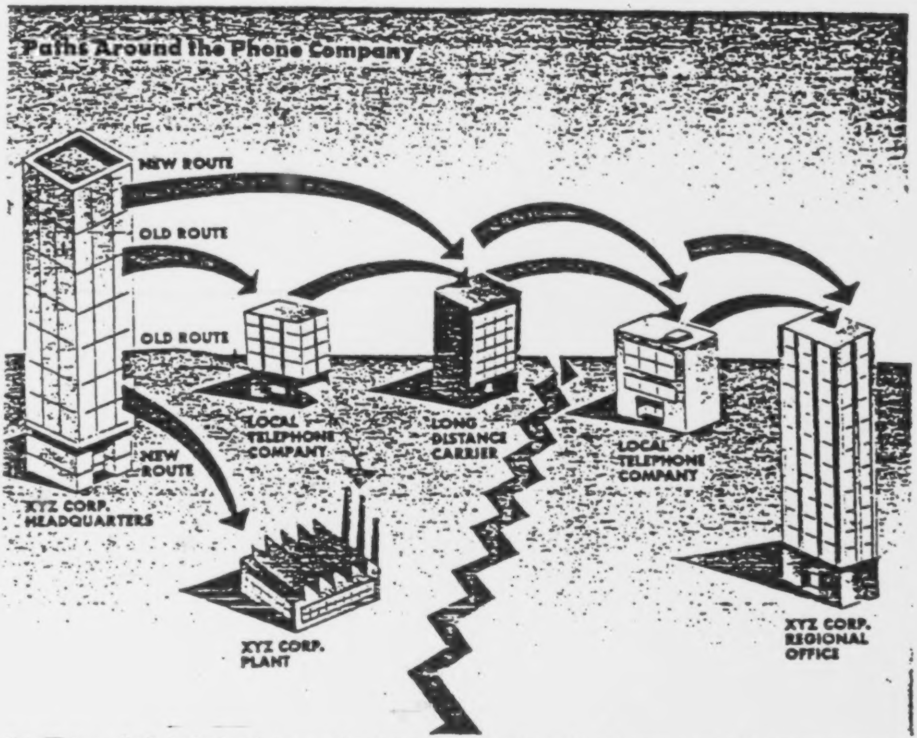

Paths Around the Phone Company

NEW ROUTE
OLD ROUTE
OLD ROUTE
NEW ROUTE
XYZ CORP. HEADQUARTERS
LOCAL TELEPHONE COMPANY
LONG DISTANCE CARRIER
LOCAL TELEPHONE COMPANY
XYZ CORP. PLANT
XYZ CORP. REGIONAL OFFICE

the old days, *all calls, local or long distance, went through the local ephone companies. Now cost-cutting customers are using microwave d other means to bypass the phone companies. The most common form of bypassing carries calls between a company's headquarters and local plants or branch offices. Some companies use the new technologies to hook up directly with long-distance carriers.*

EXHIBIT 2
WISCONSIN BELL, INC.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Public Notice:)
) Public Notice 3246.
Impact of Access) [illegible]
Charge on Small)
Businesses)

COMMENTS

The Ameritech Operating Companies - Illinois Bell Telephone Company, Indiana Bell Telephone Company, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell Incorporated - respectfully submit their comments on the Commission's Public Notice dated July 12, 1984 ("Public Notice"). Through the Public Notice, the Commission seeks information on the effects of federal decisions on local telephone rates and services particularly as they pertain to small businesses.

I. Introduction

The Commission implemented certain charges for access to the interstate telephone network on May 25, 1984, including some end user charges upon multi-line businesses. Similar end user charges for residence and single line businesses were suspended until a future date. Implementation of these charges was the first step in the transition to a rate structure under which non-traffic sensitive costs will be recovered from end user and subsidies, no longer viable in an environment of competition and by pass will be eliminated or reduced.

II. Response to Questions

1. How should small businesses be defined?

The Ameritech Operating Companies have no information which would provide a useful or material distinction in defining the concept of small business as opposed a "non small business". Measuring "size" by any objective standard (for example, number of employees, number of telephone lines, geographic area or market served, or total revenues) does not provide any insight into the ability of a business to afford access charges, or the value of telephone service to a particular business. All businesses which use telephone service benefit from the service and cause costs to be incurred by the telephone companies in providing it.

2. Is there any correlation between an entity's size and its ability to afford customer line charges and other telephone service charges?

There does not appear to be any direct correlation between an entity's size and its ability to afford telephone service, including the payment of access charges. As discussed in the answer to the previous question, the size of a business can be measured by a variety of factors, not all of which relate to the ability to afford phone service. More important, however, the actual charge for access, at least on an average, is not the sort of business expense which generally becomes a substantial budget item in any event.

For example, the Commission has limited the maximum access charge to $6.00 per line, per month. Using figures from testimony before the Small Business Task Force, the majority of members of the National Federation of Independent Businesses (NFIB) have three telephone lines or less. This translates to a maximum access charge per month of $18.00 for the majority of NFIB members. The access charge for multi-line businesses in the territory served by the Ameritech Operating Companies would actually be much less because access charges here are lower than $6.00 maximum ordered by the Commission.*

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* For example, Illinois Bell Telephone Company charges $3.45 per line, per month; Indiana Bell Telephone Company charges $4.24 per line, per month; Michigan Bell Telephone Company charges $2.87 per line, per month; The Ohio Bell Telephone Company charges $3.67 per line, per month; and Wisconsin Bell, Inc. charges ~~$3.39~~ $3.68 per line, per month.

Telephone charges for businesses are a cost of doing business like rent, or electricity and are recognized as a legitimate tax deduction. Depending upon the incremental tax bracket of the business, approximately 50% of any telephone charges on the business yields a reduced tax bill for that business. Therefore, the net impact of access charge to the majority of NFIB members becomes a maximum of $9.00 per month. While any increased expense is of concern to prudent business people, it is doubtful that an increased expense of $9.00 per month would drive any viable business to the brink of bankruptcy.

The implementation of access charges represents a move to correct historically inefficient pricing. The end user charges refect the real cost of providing service to our customers, a principal which all businesses use in pricing the products and services they provide.

3. Is there any correlation between the number of telephone lines an entity possesses and its ability to afford customer line charges?

The Ameritech Operating Companies have no study information concerning whether there is any correlation between the number of telephone lines and the ability to afford access charges. It would appear that the ability to afford telephone charges is the same as the ability to afford charges for any service or product which the entity uses to increase its efficiency and enhance its ability to conduct a successful business. Common sense suggests that attempting to measure a correlation between the number of lines and the viability of the business served would be fruitless. For example, three telephone lines serving a commodities broker's office may have more or less value than three lines serving a corner gas station. In any case, the impact of an access charge on a business (previously discussed as a maximum of $9.00 per month in the three line business example) is infinitestimal compared to other costs of that business.

Any viable business will make decisions regarding purchase of a product or service based upon the value of that product or service to the business. Does the product or service enable the business to operate more efficiently? To offer a special or unique product to its customers? To achieve an advantage over its competition? To achieve a higher net income?

One witness before the Small Business Task Force was an operator of an automobile repair shop, who spoke for the automobile repair and parts businesses in Portland. He decried the proposed increases in telephone charges. He then described how a typical garage owner uses the telephone constantly to order spare parts, to locate needed equipment, and to contact customers regarding progress of repairs to automobiles. In other words, the telephone serves as an essential tool to the garage owner to provide efficient service to customers. The value of the increased efficiency to the garage owner and to the customers of the garage offsets the cost of purchasing the telephone service; if this were not true, the garage owner would do business in some other manner.

Another witness before the Task Force represented a provider of specialized music services for businesses. This entity complained of the "huge" increases contemplated for private line services through the special access tariffs. Again, the same comment regarding value of services applies. No rational businesses will make a decision to select a given product or service unless it expects to receive full value and competitive advantage from the product or service. A business will select "special" telephone services (for example, private line, WATS, data) if it perceives a full value and return from the service selected. In any rational enterprise, the customers of the business are expected to pay the costs of the service provided.

The Commission has demonstrated to Congress and to the public alike, that the costs of non-traffic sensitive plant were formerly supported by charges on long distance service. The Commission has also explained that non-traffic sensitive costs exist whether a given customer places "long distance" calls or not. Access charges are designed to partially offset this long standing subsidy of local service costs, and to achieve a more rational cost-based system of pricing telephone service. Offsetting reductions to long distance rates are benefits which will accrue directly to business customers in return for increased access charges.

The customers of any business expect to fairly bear the costs of the service provided them. Customers of an automobile repair business, for example, implicitly expect to bear a portion of those costs incurred by the shop in purchasing tools and equipment used to repair automobiles. If the owner of the repair shop shifts the costs of equipment from one group of customers to another, he runs the risk of losing the business of the customers who bear an increased or unfair share of the costs. The same principal is true in any business. Thus, to exclude any special interest group from the burden of the costs of the business is to treat all other customer groups unfairly.

4. Is there any evidence of multi-line customers dropping off the network as a result of the implementation of customer line charges on May 25, 1985?

The Ameritech Operating Companies have no evidence of customers leaving the network as a result of end user access charge implementation. The charges have only been in existence for two months and most customers have only received one bill reflecting the new charges. Experience to date indicates there is little reaction among multi-line business subscribers to the imposition of end user charges. In one of the Ameritech Operating Companies, 251 contacts between customers and the telephone company were observed over the period May 25 through June 8. Of these contacts, only six involved questions by business people relating to access charges; none of those remarks were classified as adverse reactions among multi-line business users to access charges.

The telephone companies are not privy to the reasons any customer leaves the network. Multi-line subscribers may increase or decrease the amount of telephone service they receive for any number of reasons (for example, general conditions of the business, market changes, customer service strategy, and many others not related directly to the cost of telephone service). As discussed in previous submissions concerning bypass to this Commission, the best source for that type of information is the customers themselves, or the companies providing bypass capabilities to customers.

5. Is there any information or demand elasticity studies based on the size of the business? Is there any information on demand elasticities based on the number of telephone lines?

No such studies exist today in the Ameritech Operating Companies; none are contemplated for the near future. For reasons stated earlier, we do not believe that such studies would produce meaningful results. Too many variable exist. The size of the business does not measure the value of the service to that business, nor could it meaningfully measure the willingness or ability of the business to pay for charges. The same comments exist for measurements based on the number of lines in the possession of a business.

6. Is there any correlation between the size of a business and its telephone usage?

The size of a business (whether measured by number of lines, dollar expenditure or any other factor) is not the determinative factor on telephone usage. Rather, usage appears logically to be tied to the nature of the business. The proverbial "mom and pop" grocery store may have very low usage; the "mom and pop" automobile repair shop on the other hand, may have high usage. Use of telephone service is based upon the requirements and business decisions of individual businesses or industries and upon the value of the service to that business or industry.

7. Is there any correlation between the number of lines employed and the telephone usage?

The same comments apply here as stated above. Selection by a business of a number of lines and the usage of those lines is based on the nature of the business and the value it perceives in telephone usage.

III. Summary

Too many variables such as the nature of a business or the industry in which it operates exist to permit any definitive statement or correlation between the size of a business and its telephone usage. Simple statements about size or number of lines ignore this fact. Access charges distribute costs to those who cause the costs, and recover those costs as equitably as possible. Access charges for telephone service do not place an unmanageable burden on any viable business. Any attempt to shift costs from one class of customers to another places an unfair burden upon the other customers excluded from the cost. Rational businesses will base decisions on telephone services upon the value of this service to that business.

Respectfully submitted,

G Bloom

Thomas J. Reiman
JoAnne G. Bloom

Attorneys for Ameritech
Operating Companies

Date: August 25, 1984

TESTIMONY

OF

LYNN C. MEYER
AT&T COMMUNICATIONS OF WISCONSIN, INC.

SEPTEMBER 14, 1984

AT&T's Policy

As the telecommunications industry becomes more and more highly competitive, AT&T favors policies that are fair and equitable to all carriers and all customers. In seeking this fair, equitable and balanced approach, a solution must be found that allows small telephone companies and small businesses to continue to survive and flourish and meets the needs of all customers.

AT&T's policy now, as traditionally, is to provide quality service at reasonable prices. AT&T will do everything within reason so that customers are able to adapt readily to the changes resulting from competition, new technology and a new industry structure. AT&T is introducing new telecommunications services and products to meet customers' needs - some services and products tailored specifically to small businesses, others designed to improve services to rural areas. AT&T is also introducing new pricing options that allow customers a wider range of choices than in the past.

The Critical Need: To Reprice Services

There is one major factor that will affect the quality and delivery of telephone services throughout the nation -- urban areas as well as rural, large businesses and small, low-cost areas and high-cost areas. This key factor is how telephone services are priced. If an economically sound, cost-based pricing system is introduced, AT&T does not foresee any insurmountable problems in continuing high-quality, reasonably priced service to all customers in all areas of this country.

On the other hand, if the pricing structure is not adjusted to the demands of a competitive marketplace, the industry will face serious problems in meeting the needs of residential and business customers everywhere, especially customers in high-cost areas.

On balance, considering all interests, the FCC's plan for customer line charges generally provides an economically sound. fair and balanced approach for pricing telephone services.

By any measure, telephone service has been a bargain over the years, particularly when considered relative to other components of the Consumer Price Index or other business costs. Technological advances and increasing competition should enable us to provide continually improving services for customers throughout the nation. But in a competitive marketplace, such benefits derive from the economic efficiencies of cost-based pricing.

Traditionally, prices for telephone services in this country have been set not on the basis of the costs of the particular service involved but according to a cost allocation plan designed to shift increasingly larger proportions of the costs of the local customer connection to long distance services. Thus, local rates have been kept lower than their true costs by charging more for long distance. This system of internal subsidies could work when a single telephone company provided service without competition and the entire industry was, in effect, an integrated financial partnership. But circumstances have changed. The huge subsidies cannot continue to increase as competition and technology drive down the cost of the alternative bypass systems.

In a competitive marketplace, a broad system that subsidizes nearly everyone simply will not work. Such a system is counterproductive. The solution is a reasonable balance. While low-income persons and those in truly high cost areas may need some level of support to assure that they will not have to forego telephone service, there certainly is no justification for subsidizing local telephone service for all customers -- or all small businesses, or all rural customers. The solution should focus on the truly needy through much more targetted programs and be phased in over a reasonable transition period before those business customers with heavy long distance usage set up alternative systems which bypass the local network entirely.

These so-called "bypass" systems threaten to drain off substantial revenue, revenue necessary for the continued maintenance and upgrading of the network. Bypass will leave behind under-utilized facilities, the cost of which must be recovered from those customers who do not have readily available alternatives. As this happens, small-business and lower volume residential customers will have to pay higher rates. The ultimate effect is that those customers who cannot afford an alternative system will suffer the most.

But, not all systems which would bypass the local exchange network can or should be stopped. There may be technical or economic justification for large businesses, government agencies or academic institutions to turn to private telecommunications sustems, and it would not make sense for Congress or any other legislative body to attempt to hinder such technological development. The real danger lies in what is called uneconomic bypass -- a customer's selection of an alternative system solely because of uneconomic costs (subsidies) imposed on long distance carriers and their customers to support other services. Large customers are driven to build or lease bypass systems to avoid subsidy charges which they consider unfair. In a competitive environment, in which the customer has an alternative, such subsidies are economically unsustainable.

One answer frequently suggested to prevent uneconomic bypass is to require all bypassers to contribute to a fund or pool that would go to the support of the local exchange network. It is argued that all bypassers will need to rely on the local network as a backup for their own systems, so it is only fair that they continue to help maintain this network. On a very practical level, however, none of the proposals has outlined a feasible plan for either identifying bypassers or collecting and distributing the money involved. Further, such a tax would inhibit innovations and technological developments which are justified on an economic basis.

The FCC made a siginificant step in the repricing of telephone service with the decision to introduce a small fixed monthly charge on all customers, business and residential. This charge, which previously, and rather unfortunately, was called an "access charge," is intended to replace part of the subsidies from long distance to cover local loop costs. Accordingly, if the FCC plan were enacted and the subsidy burden removed over a reasonable transition period, long distance prices would be driven down to reflect true economic costs.

The FCC Plan

The FCC's overall approach for repricing telephone services is generally fair and equitable. Each business is required to pay a separate monthly charge to cover the costs of each of its telephone lines. The charge which will be phased in over several years for business customers varies by state, and when completely phased in will range from $2.85 to a maximum of $6.00. The average monthly charge after four years is $4.89. Small businesses are not singled out for any exceptional or unfair treatment -- neither are rural customers. The Commission has deferred all customer line charges on residential customers and businesses with a single line at a location.

AT&T believes that the approach taken by the FCC is a necessary and positive step toward a cost-based pricing system in which, so far as other factors allow, those responsible for creating costs will receive the bill for those costs.

The FCC has postponed fuller implementation of its plan until next year. The Commission has undertaken renewed studies of the plan's possible impact on universal service and the need for further targetted assistance to those who may not be able to pay new fixed monthly charges. The Commission also is examining proposed alternatives to customer line charges, including suggestions put forth by studies of the Congressional Budget Office and the Joint Economic Committee. The Commission recognized the need to safeguard customers from sharp or unpredictable price changes during the transition of a new pricing system.

Others, including state public utility commissions, also are considering alternative ways of handling the necessary changes.

AT&T believes that the FCC's plan will bring substantial benefits to both large and small businesses in urban and rural areas of the country.

First, monthly customer line charges -- which in no case would exceed the true economic costs of that line -- will enable further reduction of prices for interstate long distance calls. For many small businesses, these lower prices will more than offset the monthly customer line charge. Small advertising agencies and consulting engineering firms, for example, are typically heavy long-distance users and they are already benefiting from recent reductions in interstate prices.

Second, deterring uneconomic bypass by heavy toll users will prevent a spiral of increasing rates to remaining users, including customers in rural areas and small businesses which do not have sufficient volume to justify setting up their own systems. Obviously, small businesses and rural telephone companies and their customers have much to lose from bypass but, in fact, customers everywhere will be hurt.

Thirdly, a cost-based pricing structure, with lower long-distance prices, will encourage more competition and innovative offerings by AT&T and other carriers. These, in turn, will stimulate usage that will result in lower unit costs and still lower rates. These lower rates will be reflected in lower prices throughout the economy, benefiting everyone.

There are no new revenues for exchange carriers or for AT&T as a result of customer line charges. These charges merely replace those formerly included in long distance bills, which had the major detrimental effect of inhibiting long distance calling.

The charges are now more obvious and, although there is some redistribution among customers, the overall effect is beneficial. Moreover, to the extent that even this small customer line charge may prove too burdensome for some low-income people, the FCC plan provides for a waiver, on a targeted basis, of these customer line charges. Further, the plan provides for support (subsidies) to be provided to high cost exchange carriers so that those serving rural customers can maintain reasonably priced services.

Lower Long-Distance Prices

Direct recovery by exchange carriers of more of the fixed customer line costs means lower charges to the interexchange carriers and lower rates for their customers. Customer-line charges for multi-line businesses introduced last May, for example, were accompanied by a 6.1% reduction in interstate toll rates to all customers, business and residential.

Businesses with a single line (about 39% of the small businesses responding in a recent survey by the National Federation of Independent Businesses) benefitted from that reduction in interstate toll charges more than their fellow small businesses -- in some cases, their competitors -- because the monthly customer line charge they were to pay has been deferred. Customers with $80 per month or more in interstate toll charges per line have seen a sufficient reduction in their long distance bills to offset at least the $4.89 average customer line charge they pay. Introduction of residential and single-line business charges in 1985 would make further toll rate reductions possible, reduce this threshold still more, and make many small-business customers better off than they are today.

AT&T is offering pricing plans to meet the particular needs of various classes of customers, such as small, rural businesses which may not have sufficient calling volumes to warrant their subscribing to WATS. In West Virginia, California, Wisconsin and Texas, for example, AT&T has filed intrastate pricing plans designed to lower the prices for long distance service for small businesses. "Reach Out - Texas" was recently approved on an interim basis. "PRO-West Virginia," an optional plan which has been approved by the state commission, features a flat monthly charge of $10 for each main billed number at a location. With that, the customer receives a 15% discount on all directly dialed intrastate long distance charges. AT&T is considering similar plans in other jurisdictions. Such plans can help customers further offset the effects of a monthly customer line charge and enable them to use their telecommunications service to make their businesses more efficient and productive in other ways, as well.

Bypass

Economic bypass of the telephone network -- the establishment and use of alternative private systems because they are more economical or more efficient -- cannot and should not be discouraged. Uneconomic bypass, to which large customers turn to avoid the burden of subsidizing other services, is another matter. The relationship between economically priced telephone services and the threat of uneconomic bypass is direct and mutual. Economically sound, cost-based pricing discourages uneconomic bypass. Just as important, however, the growth of uneconomic bypass threatens economically priced telephone service, particularly in those parts of the country where costs are already high.

Moreover, the presence on the network of large-volume customers is a powerful incentive for carriers to innovate and invest in new technology. To the degree that significant telecommunications traffic leaves the network, this incentive is diminished, and the ability to finance improvements in service also is diminished. Also the introduction of more advanced technology, such as fiber optics, which may be justified only if calling volumes remain high, is discouraged.

Legislation passed by the House of Representatives last year, as well as that considered in the Senate, attempted to address the bypass problem by requiring at least some bypassers to make a contribution to the local network. But none of the plans put forth ever made clear how bypassers were to be identified or what sort of practical mechanism would be devised to collect and distribute the money.

In Docket 78-72, the FCC is making additional studies of bypass and has received data from many parties. It is already clear, however, that many large customers are moving to bypass and many more will do so if prices are not related more closely to costs.

Long Range Benefits

Pricing closer to economic costs will yield substantial benefits in future years.

A recent study by Wharton Econometric Forecasting Associates found that the FCC plan would benefit both residential and business users and, indeed, the entire national economy. Long-distance price reductions, Wharton found, will foster more vigorous competition in the long distance market and strengthen the U.S. economy over the next five years, leading to a $46 billion increase in the gross national product, 400,000 new jobs, a 1% reduction in the overall level of prices, and a $21.5 billion reduction in the federal debt. The FCC plan, the study said, would also have a favorable effect on the U.S. balance of international trade. The Wharton study recognizes that some means of subsidizing basic residential service to high-cost rural areas and low-income individuals may be required, but such subsidies would be limited and targeted.

The Congressional Budget Office, in a study released last June, also found that the FCC plan would have positive results. The plan would result in greater economic efficiency, the CBO report said, and would not greatly reduce telephone availability. Even the rather modest losses of service projected by most studies, the report said, are likely overstated. The report also found that increasing competition in the industry eventually could undermine any internal subsidy program.

Direct Costs to Small Businesses

As stated earlier, small businesses with only a single telephone line at a location (about 39% according to NFIB responses) now have no immediate customer line charges, but already benefit from interstate price reductions. Customers with two or three lines (a further 41% of respondents in the NFIB survey) pay an average of $4.89 per line. It is difficult to believe that a business that needs 2 or 3 telephone lines will be jeopardized by such a charge, particularly since the charge is offset partly, if not totally, by long distance rate reductions. If customer line charges for residential and single-line business customers are introduced in 1985, allowing further reductions in long distance rates, the break-even point will be even lower than it is today.

For businesses which make few or no long distance calls, customer line charges may result in an increase in their monthly bills. But, considered in relationship to other business costs, these additional charges are modest especially when compared to the benefits which could flow from the new cost-based pricing structure.

Conclusion

AT&T has worked, steadfastly, over the past 100 years to bring quality telephone service at reasonable prices to families and businesses everywhere in this nation. AT&T's commitment to high quality service at reasonable rates remains today. Major transformations have taken place in the telecommunications industry recently. However, the only threat to universal service -- to small businesses, to customers in rural areas, or to low-income persons -- is failure to implement the programs planned by the FCC. The only real threat to universal service is that, having decided after much deliberation that competition will best serve the people of this nation, policymakers should now falter in implementing that decision.

The need for economically priced service is the key. A continued subsidy burden on long-distance customers will encourage more and more of those consumers to seek alternatives. In the judgment of AT&T, the consequences of bypass are not only serious for residential and small-business customers throughout the nation but are especially detrimental to the interests of customers in rural areas.

LEWIS A. KONOP
PRESIDENT

KONOP VENDING MACHINES, INC.
443 LAURA STREET GREEN BAY, WI. 54302

PHONE: 414 - 468-8517
COMPLETE VENDING
SERVICE SINCE 1946

MY NAME IS LEWIS KONOP, A RESIDENT OF GREEN BAY ALL MY LIFE. I FOUNDED KONOP VENDING MACHINES IN 1946 WHEN I RETURNED FROM THE SERVICE. WE ARE IN THE VENDING MACHINE BUSINESS AND VEND VARIOUS TYPES OF FOOD PRODUCTS. WE DO NOT OPERATE MUSIC OR GAME MACHINES. OUR BUSINESS IS CONFINED TO THE GREEN BAY-DEPERE AREA, AND AT THIS TIME WE HAVE 22 EMPLOYEES.

TO BE SUCCESSFUL IN THIS BUSINESS, SERVICE IS ALL IMPORTANT; AND THAT'S WHERE THE TELEPHONE IS SUCH A NECESSARY PART OF OUR BUSINESS. WE AVERAGE ABOUT 20 SERVICE CALLS PER DAY AND ABOUT 4 CALLS PER EVENING--ON WEEKENDS 10-15 CALLS. WE ALSO NEED THE PHONE TO MAKE CALLS TO NEW AND EXISTING CUSTOMERS TO KEEP OUR BUSINESS GROWING.

WE HAVE 4 LINES; TWO ARE JUMP LINES TO AVOID BUSY SIGNALS AS MUCH AS POSSIBLE. WE ALSO HAVE A COMPUTER HOOK-UP. OUR SERVICE IS WITH A T & T.

OUR MONTHLY SERVICE AND EQUIPMENT CHARGE HAS RISEN $60/MONTH SINCE JAN. 1983. THAT'S A 66% INCREASE WITH NO CHANGE IN SERVICE. I'M SURE PART OF THIS IS DO TO THE ACCESS CHARGE, BUT LIKE EVERYONE ELSE, I FIND IT HARD TO UNDERSTAND THE BILLINGS. SINCE ONLY ABOUT 4% OF OUR CALLS ARE LONG DISTANCE, THE DECREASE IN RATES IN THIS AREA HAS NOT HELPED TO OFFSET OUR COSTS. AS IN ANY BUSINESS, ADDITIONAL COSTS ARE OFTEN CAUSE TO MAKE US RELUCTANTLY RAISE PRICES.

WE DO FEEL THAT EVERYONE (THIS INCLUDES LARGE CORPORATIONS AND SMALL BUSINESS) SHOULD PAY HIS FAIR SHARE. THOSE WHO USE IT MOST SHOULD PAY A LARGER SHARE OF THE COST.

WWE
Wisconsin Women Entrepreneurs
P.O. Box 132
Racine, WI 53401

STATEMENT OF

GEORGIA THOMAS

VICE PRESIDENT CARDINAL EXPRESS CORPORATION

SECRETARY OF WISCONSIN WOMEN ENTREPRENEURS

Before: Congressman Toby Roth's Special Hearing

Subject: Telephone Access Charges

Date: September 14, 1984

Mr. Chairman, I am here as a representative of Wisconsin Women Entrepreneurs. Wisconsin Women Entrepreneurs was founded in 1980 in Racine and now has close to 150 members in Southeastern Wisconsin. We are looking forward to forming chapters throughout Wisconsin within the near future. Our members' businesses are considered small according to the Governments criteria for small businesses but many of us have more than one telephone line. Because of the short time I have had to prepare for the hearing, I was not able to poll all of our members but those that I as able to contact are very concerned about the rising cost of telephones.

In order to understand the impact of phone charges on a small business I did a study of our phone bills from January 1981 to the present. We have a business that is diversified and very dependent on the telephone. Our business is involved in emergency trucking, janitorial supplies, building service consulting and janitorial service We have sales @ present of about $300,000 and we have just begun a telemarketing program, so I have 5 telephone lines--2 local Racine lines, 1 direct Milwaukee line and an In and Out Wisconsin Wats Line.

In 1981 my cost were:

Jan. 1981	Racine		Milwaukee
Local	22.71		21.36
Extra 229	16.99		
Long Dist.	13.40		
June 1981			
Local	52.67		21.36
Extra 410	30.42		
Long Dist	59.40		38.58
Directory			334.55
Sept 1981			
Local	62.75		168.29
Extra 227	16.85		
Long Dist	74.62		43.87
Directory	81.85		334.55
Jan 1982			
Local	62.16		165.48
Extra 79	5.81		
Long Dist	43.68		4.03
Direct	81.85		382.55
June			
Local	68.90		168.15
Extra 154	10.78		8.96
Long Dist	73.18		1.94
Direct	81.85		382.55
Jan 83			
Local	68.90		168.15
Extra 170	13.60	153	12.24
Long dist	55.77		
Direct	112.70		368.80
Mar. 83			
Local	68.40		178.15
Extra 189	15.12	275	22.00
Long Dist	45.37		4.26
Direct	112.70		358.80
June 83			
Local	72.60		257.40
Direct Ad	112.70		188.40
Jan 84	73.30		253.45
Extra	21.0[illegible]		6.23
Long Dist	49		15.56
Direct	11[illegible]		188.40

August 1984

	Wats		Racine		Milwaukee
Local	124.86		80.66		253.45
	154.28				
Extra		590	53.10	337	30.33
Long Dist			25.44		
Direct			85.70		193.00

Beginning in August we started leasing our phone system from Wisconsin Bell Communication, Ameritech for $147/mo for 60 months.

It is obvious that costs have gone up steadily since 1981 and although the initial monthly access charges are small they will steadily increase just as all the other charges have. Also you will find that the majority of small businesses are calling long distance with in the state rather than interstate. In the Racine Area the majority of intrastate long distance calls are made to the Milwaukee Metropolitan Area, and there are special call packages that we can take advantage of but these are no marketed very well. Most of our members do not seem to be aware of these special packages.

It is my understanding that large corporations can buy their own systems and bypass these charges so, as usual small business will bear the brunt of them.

NFIB® National Federation
of Independent Business

The Guardian of Small Business

STATEMENT BY

BILL G. SMITH
DIRECTOR, GOVERNMENTAL RELATIONS
WISCONSIN

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

BEFORE CONGRESSMAN TOBY ROTH, MEMBER
TELEPHONE TASK FORCE OF THE
HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE

FRIDAY, SEPTEMBER 14, 1984

CONGRESSMAN ROTH, I APPRECIATE THE INVITATION TO APPEAR AT THE HEARING TODAY AND TO SHARE WITH YOU A STATEMENT ON BEHALF OF THE NFIB'S WISCONSIN MEMBERSHIP.

BEFORE I GET TO THE SUBJECT OF TODAY'S HEARING, I WOULD LIKE TO EXTEND MY CONGRATULATIONS TO YOU ON BEHALF OF THE WISCONSIN CHAPTER OF THE NFIB FOR YOUR OUTSTANDING VOTING RECORD ON ISSUES OF IMPORTANCE TO SMALL BUSINESS.

NFIB/WISCONSIN
Legislative Office
217 S. Hamilton Street
P.O. Box 1072
Madison, WI 53701
608/255-6083

SINCE YOU RECENTLY RECEIVED THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS GUARDIAN OF SMALL BUSINESS AWARD IN WASHINGTON, I WANT YOU TO KNOW YOUR WORK ON BEHALF OF SMALL BUSINESS IN WASHINGTON AND HERE IN WISCONSIN (AS EVIDENCED BY TODAY'S HEARING) IS VERY MUCH APPRECIATED.

FOR THE RECORD, MY NAME IS BILL G. SMITH, AND I AM DIRECTOR OF GOVERNMENTAL RELATIONS IN WISCONSIN FOR THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB/WISCONSIN), OUR STATE'S LARGEST BUSINESS MEMBERSHIP ORGANIZATION WITH APPROXIMATELY 13,000 SMALL BUSINESS MEMBER FIRMS.

AS A MEMBER OF THE LEGISLATIVE COUNCIL'S SPECIAL STUDY COMMITTEE ON TELECOMMUNICATIONS, I KNOW FIRST HAND THAT THE SUBJECT OF THE HEARING TODAY IS AN EXTREMELY COMPLEX ONE. I COMMEND YOU AND OTHER MEMBERS OF CONGRESS WHO SERVE ON THIS TASK FORCE FOR YOUR INTEREST AND EFFORTS TO MAKE CERTAIN THAT SMALL BUSINESS IS TREATED FAIRLY BY THE TELECOMMUNICATIONS INDUSTRY.

BECAUSE THE FUTURE OF THE TELECOMMUNICATIONS INDUSTRY IS SO IMPORTANT TO THE FUTURE GROWTH AND PROSPERITY OF SMALL BUSINESS, THE NFIB HAS UNDERTAKEN SEVERAL STUDIES TO HELP BOTH LAWMAKERS AND REGULATORS GAIN A BETTER PERSPECTIVE OF THE IMPACT OF THE TELECOMMUNICATIONS INDUSTRY ON SMALL BUSINESS.

IN A 1983 NFIB STUDY, MEMBERS WERE ASKED TO RATE THE SEVERITY OF 72 SMALL BUSINESS PROBLEMS. TWENTY THOUSAND, NINE HUNDRED AND EIGHTY QUESTIONNAIRES WERE MAILED TO A RANDOM SAMPLE OF THE NFIB MEMBERS; 4,881 USABLE RESPONSES WERE RECEIVED FOR A RESPONSE RATE OF 23 PERCENT.

THE COST OF NATURAL GAS, GASOLINE AND FUEL OIL WAS RANKED NUMBER 2, THE COST OF ELECTRICITY WAS RANKED NUMBER 3, AND TELEPHONE COSTS WERE RANKED NUMBER 6 BY WISCONSIN NFIB MEMBERS IN TERMS OF PRIORITY OUT OF A POSSIBLE 72 PROBLEMS. BY INDUSTRY, TELEPHONE COSTS WERE RANKED NUMBER FOUR BY WHOLESALE, NUMBER SIX BY RETAIL, NUMBER TWO BY FINANCIAL SERVICES, NUMBER TWO BY SERVICES AND NUMBER THREE BY PROFESSIONALS. THE SIGNIFICANCE OF THIS DATA IS THAT THESE ARE THE VERY FIELDS OF OUR ECONOMY THAT ARE EXPECTED TO PRODUCE THE JOBS OF THE FUTURE. IN FACT, ACCORDING TO THE DEPARTMENT OF INDUSTRY, LABOR, AND HUMAN RELATIONS, NEARLY ALL EMPLOYMENT GROWTH TO 1990 WILL BE LED BY SERVICE OCCUPATIONS, PROFESSIONAL, TECHNICAL AND KINDRED WORK -- ALL INDUSTRY GROUPS DOMINATED BY SMALL BUSINESS.

TYPICALLY, SMALL BUSINESSES ARE ENGAGED IN ACTIVITIES WHICH REQUIRE THEM TO MAKE FREQUENT USE OF THEIR TELEPHONES. ACCORDING TO A RECENT STUDY BY NFIB, THE MOST COMMON USE OF THE TELEPHONE BY OUR MEMBERS IS TO TAKE ORDERS AND ANSWER INQUIRIES. LOCAL MEASURED SERVICE RATES, OR A USAGE SENSITIVE

RATE SYSTEM ARE THEREFORE CLEARLY NOT IN THE BEST INTEREST OF SMALL BUSINESS, NOR ARE THEY AN APPROPRIATE RATE STRUCTURE BASED ON EQUITY.

A STUDY OF A PROPOSAL FOR MEASURED SERVICE IN THE WASHINGTON, D.C. AREA FOUND THAT, BASED ON PRESENT RATES OF USAGE, LOCAL MEASURED SERVICE WOULD INCREASE THE TELEPHONE BILLS OF SMALL BUSINESS CUSTOMERS (0-49 EMPLOYEES) BY AN AVERAGE OF 62.2 PERCENT BASED ON EXISTING SERVICES. THOSE FIRMS WITH 10-19 EMPLOYEES COULD LOOK FORWARD TO A 71.9 PERCENT INCREASE IN THEIR CURRENT TELEPHONE COSTS. WHEN WE CONSIDER THAT 88 PERCENT OF ALL THE BUSINESSES IN THIS STATE HAVE FEWER THAN TWENTY EMPLOYEES, YOU SOON REALIZE HOW BROAD AN IMPACT THE LOCAL MEASURED SERVICE RATE STRUCTURE WOULD HAVE ON SMALL BUSINESS TELEPHONE USERS. A 60 PERCENT INCREASE IN THE COST OF A SERVICE AS ESSENTIAL AS THE ENERGY NEEDED TO LIGHT, HEAT AND COOL A BUSINESS WOULD CLEARLY HAVE A DISPROPORTIONATE IMPACT ON SMALL BUSINESS DOMINATED INDUSTRIES.

AS IT IS TRUE OF LOCAL MEASURED SERVICE, IT IS ALSO TRUE OF ACCESS CHARGES; NAMELY, THAT BOTH PRICING SYSTEMS WOULD PLACE SIGNIFICANT BURDENS ON SMALL BUSINESS USERS OF THE TELEPHONE, AND BOTH WOULD IMPACT DISPROPORTIONATELY AND UNFAIRLY ON SMALL BUSINESS DOMINATED INDUSTRIES.

SO THAT WE COULD GAIN A BETTER PERSPECTIVE OF TELEPHONE USAGE BY SMALL BUSINESS, NFIB CONDUCTED A SURVEY AMONG 17,000 OF OUR MEMBERS IN EARLY 1984. THESE SURVEY RESULTS, WHICH WERE PUBLISHED IN MAY, WERE OUR FIRST INDICATION THAT THE RESTRUCTURING OF THE TELECOMMUNICATIONS INDUSTRY, AND SPECIFICALLY THE ACCESS CHARGE PLAN, WERE GOING TO SEVERELY IMPACT ON SMALL BUSINESS.

THE NFIB SURVEY FOUND THAT MOST SMALL BUSINESSES (OVER 60 PERCENT) HAD MORE THAN ONE TELEPHONE LINE. CONSEQUENTLY, THE GRADUAL TRANSITION THAT THE FCC DEVISED FOR RESIDENTIAL AND ONE-LINE BUSINESS USERS AS A MEANS OF PROTECTING THOSE CUSTOMERS FROM RAPID COST INCREASES IS INEFFECTIVE WITH REGARD TO MOST SMALL BUSINESSES.

THE SECOND FCC MISPERCEPTION IS THAT BUSINESS USERS AS A GROUP USE INTERSTATE LONG-DISTANCE SERVICE TO SUCH AN EXTENT THAT THE REDUCTION IN INTERSTATE RATES WILL OFFSET THE COST OF ACCESS CHARGES. THIS MAY BE TRUE OF LARGER BUSINESSES, BUT IT SIMPLY IS NOT TRUE FOR SMALL BUSINESSES, ACCORDING TO OUR SURVEY RESULTS. NEARLY TWO-THIRDS OF THE RESPONDENTS REPORTED LESS THAN HALF OF THEIR PHONE BILLS WERE LONG-DISTANCE CHARGES, AND FURTHERMORE, OVER HALF OF THEIR LONG-DISTANCE CALLS WERE INTRASTATE AND, HENCE, NOT AFFECTED BY REDUCED INTERSTATE RATES.

IN CONCLUSION, WITH REGARD TO LOCAL MEASURED SERVICE RATES, AND ACCESS CHARGES, WE ARE NOT ASKING THAT SMALL BUSINESS BE RELIEVED FROM PAYING ITS FAIR SHARE OF THE COST OF OPERATING TELEPHONES. WHAT WE ARE ASKING AND URGING IS THAT SMALL BUSINESS BE MADE TO PAY ONLY ITS FAIR SHARE OF THE COST. TO THE EXTENT THAT DEREGULATION OF THE COMMUNICATION INDUSTRY RESULTS IN INCREASED COST, THOSE INCREASED COSTS SHOULD BE FAIRLY AND EQUITABLY ALLOCATED AMONG ALL USERS OF THE TELEPHONE SYSTEM. TO PERMIT THE TELEPHONE COMPANIES TO PASS ON THESE INCREASED COSTS PRIMARILY OR DISPROPORTIONATELY TO SMALL BUSINESS IS NOT ONLY UNFAIR BUT IS LIKELY TO HAVE A NEGATIVE EFFECT ON THE ECONOMY OF OUR STATE. WE ARE CONVINCED THE MANDATORY IMPLEMENTATION OF A LOCAL MEASURED RATE STRUCTURE AND ACCESS CHARGE PLAN AS PROPOSED BY THE FCC POSE A DISTINCT DANGER TO THE HEALTH AND VIABILITY OF THE ENTIRE SMALL BUSINESS COMMUNITY.

AGAIN, I WANT TO THANK YOU FOR THE OPPORTUNITY TO APPEAR AT YOUR HEARING ON BEHALF OF THOSE WISCONSIN SMALL BUSINESS FIRMS WHO ARE MEMBER OF THE NFIB.

(PROPOSED) TESTIMONY OF NESS FLORES
CHAIRMAN OF THE WISCONSIN PUBLIC SERVICE COMMISSION
BEFORE THE TELEPHONE TASK FORCE
OF THE HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE

I am pleased to have been invited to address this task force meeting, and I am grateful for your decision to bring this forum to Green Bay to address small business concerns about federal access charges.

Wisconsin is a state that traditionally has attempted to promote the interests of small business. Small businesses comprises the majority of Wisconsin's business and economic base.

Many of the businesses are located in small towns with populations under 100,000. Although family farms are not classified as businesses for telephone charge purposes, it should not be forgotten that these are businesses which also rely on the telephone to serve their needs. It is principally these interests of the small town or rural business user, which the FCC has targetted to shoulder the burden of its economic policy plans.

End user charges for multi-line businesses went into effect on June 1. For the high cost independent companies in this state which participated in the Exchange Carrier Association tariff filed with the FCC, the end user charges will be at or near $6 per line, per month. The charge for single line business-customer was postponed until June 1, 1985, but when that charge goes into effect, it will also be $6. Residential end user line rates will be $2 per line, per month, to go up to $4 per month by 1987 and remain at that level until 1990.

The interstate end user charge only tells part of the story. The other half of the story is the effect this policy embodied in the FCC's decision has on intrastate rates. The Public Service Commission has also developed an access charge plan, which does not include end user charges. This is because end user rates were already in existence in the form of flat local exchange rates.

Because the access charge structure imposed by the FCC allows state commissions little flexibility to spread costs of providing telephone service among intrastate access services, the Public Service Commission will very likely be forced to raise local rates also. It is important to understand why.

The structure of the access charges adopted by the FCC shift the fixed costs of providing telephone services onto end users. Before the FCC adopted access charges, part of these costs were recovered through toll charges, to which were allocated part of the responsibility of recovering these fixed costs. (Unfortunately, this allocation became known as a "subsidy" from long distance to local rates, a name which totally distorted the fact that the allocation had nothing to do with competition in long distance services, and which obscured the fact that the allocation could easily be shifted for political or other noneconomic or nonregulatory purposes). The access charge structure reclassified these costs out of the interstate toll rate base, away from AT&T and the other common carriers, and onto the local exchange company subscribers in the form of flat rate charges.

The reclassification of these fixed costs out of the interstate toll revenue requirement and into the interstate access service revenue requirement to end users, does not by itself change the total amount of revenues to which the phone company is entitled to earn a fair return on its investment. As I will show, increases in the revenue requirement resulting from increases in depreciation of fixed cost categories of investment, like outside plant, do translate into local rate increases. But the point I wish to emphasize here is that by itself the access charge structure changes the manner in which revenues are recovered. This is important because large interstate users of telecommunications plant have an incentive to use local exchange access plant for their needs. Their heavier demands on the system, however, will cause other ratepayers to bear greater responsibility for these costs. If these users cause the local network to be used more than is presently allocated to the interstate network, or allocated to the interstate access revenue requirement. The greater amount of use of interstate services, the more local plant will have to be expanded to meet this demand, and consequently, the higher local rates will have to be. With the expanded use of computers and the transmission of data, it is possible to imagine computers left on line for long periods of time to converse with one another. Banks and insurance companies and other such businesses have large data transmission needs. Many of these users use the public system for their needs. On a large scale, this would mean a local phone line being tied up for hours during peak traffic times. If a significant amount of these calls is interstate, a greater number of local lines will be needed to maintain service simply for local calling. Right now, telephone company investment is split about 25% to the interstate jurisdiction, based on past studies of usage, and 75% is allocated to the intrastae sphere. These figures are now frozen. If the interstate use of the local exchange plant increases to 50%, you do not need college algebra to see who will have to pay to increase the expanded interstate use of the system.

It is important to recognize also that part of the fixed investment in exchange plant is in trunking facilities connecting exchanges together for extended area service. Extended area service was implemented where economics showed it was desireable to connected communities served by multiple exchanges together for local calling purposes. Carriers competing with AT&T for long distance service have connected to the local exchange as the "line" side, with ordinary business connections, so that their subscribers can reach their switch with a local call. Unfortunately, many of these subscribers live in areas outside of the immediate exchange where the switch is located, so that their calls are routed over the special trunks designed only to complete local, not toll calls. By making toll calls over circuits designed to handle only local traffic, there is not only the problem of using facilities not designed for this purpose, but there is the financial problem of increasing demand on these facilities requiring more circuits to be installed. This also leaves the trunk toll lines which connect these offices with excess capacity. Since none of the investment in EAS facilities is allocated to the interstate jurisdiction, the cost of improving the lines to meet increased usage could be passed on to the local customer, if the local company is unable to collect this charge from the carrier.

It may happen that the access charge structure will also cause shifting increases in total rates and revenue requirements of the exchange telephone company to the local user as well. As I previously mentioned, competition imposes a greater demand on existing facilities, including both outside plant investment and central office equipment. By imposing greater demand on these facilities and requiring that, when they are retired, they be replaced by more sophisticated equipment, competition causes these facilities to have a shorter time in service. Shortened service lives results in increased depreciation. The FCC has exacerbated what has already begun to take place by changing the way depreciation expense is computed. These changes in depreciation methods have enabled telephone companies to recover depreciation expense more quickly and at higher levels than ever before. Categories of plant such as pole lines have had rates of depreciation triple the old rate under these new methods. The access charge structure forces depreciation costs for outside plant investment onto the local ratepayer, for reasons mentioned before.

The FCC has ruled that the Wisconsin Public Service Commission must follow FCC prescribed depreciation rates, when setting intrastate rates. So far, the Wisconsin PSC has resisted the FCC's preemption. Consequently, Wisconsin Bell has brought an action in the Federal District Court for the Eastern District of Wisconsin to enjoin the commission to adopt these FCC depreciation rates and methods. That case is still pending.

The commission has also intervened in other cases around the country challenging the FCC Preemption Ruling. (E.g. Virginia State Corporation Commission v. FCC, Fourth Circuit Case No. 83-1136, Decided June 18, 1984, affirming the FCC Preemption Ruling, but Petition for Rehearing is pending.)

The FCC has done little to mitigate the effects of its decision on the rural or small town business or residential subscriber. Because of the structure of the access charges, many of the costs that were recovered from the settlements and separations procedures will have to be recovered directly from the local ratepayers. This will create greater pressures on the smaller independent companies which serve the rural and small town areas to increase local rates. A number of these companies have not had rate increases in many years, and some users may be shocked when their bills must increase dramatically. The small telephone company deregulation bill recently passed by the legislature attempts to respond to the financial problem of small telephone companies, by requiring abbreviated PSC review of small telephone company rate applications and expedited hearing procedures. But this legislation does not completely address the burden of anticipated rate increases on small businesses and other users. The ability to control that lies with the Congress.

Nor does the FCC recognize the problem of obtaining long distance or other service in the more rural regions. The market place provides better incentive to competing carriers to serving their markets. In a competitive market, it may be constitutionally impossible to require AT&T to serve their market either, and we may face a situation as we did with railroads, where many of the short and connecting lines to rural areas were abandoned. I believe that the Congress can prevent these circumstances from coming about, by reversing the FCC when the Court has not acted.

Thank you for your consideration.

APPENDIX B.—PREPARED STATEMENT OF RONALD J. CLARK, VICE PRESIDENT, TIME, WEATHER, TEMPERATURE ADVERTISING, TAMPA, FL

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

[illegible] Avenue • Tampa, Florida [illegible] • [illegible]

September 21, 1984

The Honorable Michael Bilirakis
The United States House of
  Representatives
319 Cannon House Office Building
Washington, DC 20515

Dear Mr. Bilirakis:

We are writing you regarding the Federal access charge which has recently been added to our phone bills. Our objective is to bring to your attention the adverse economic effects this charge is having on our business and what we feel the impact will be on our small business.

HISTORY

In many communities throughout the country, Time of Day services were sponsored by the local operating telephone companies. This service was paid for by their customers with the local operating telephone companies charging themselves their tarrift rates for each one of the lines used in order to provide the service. The rate payors did not mind it because it was viewed as a valuable service and the local operating companies were able to justify the expense in that it certainly was a lot more cost effective to have a mechanical machine available twenty four hours a day dispensing time and/or temperature, than to pay an operator!

Enter Computer II! Within the AT&T divestiture ruling was the directive for the holding companies to exit out of the enhanced services such as Time of Day. In many communities, Time of Day services have been operating with their existing known phone numbers in excess of forty years! Now with the Computer II ruling forcing the local operating companies out of this service, what was going to happen?

In March of 1983, Gale Porter and I started a company called Time, Weather, Temperature Advertising. We saw the community need and a desire for the Time of Day services and we felt a profit could be made by selling the short messages heard before the time announcement to multiple sponsors as an advertising spot. Thus, a new advertising medium was created!

TWTA initially took over from Southern Bell the Time of Day services in the Orlando and Gainesville communities. We started operation in the Tampa area this August 10th and have signed contracts to begin operating in St. Petersburg September 15th, in Clearwater January 1st, and Lake Wales, Bradenton, and Winter Haven by Feburary 1st.

PRESENT SITUATION

Time of Day telephone services traditionally recieve a whole bunch of phone calls! In Orlando, our Time, Weather, Temperature service recieves in excess of 1.5 million calls per month, Gainesville over 450,000, and in Tampa, close to two million calls. In order to provide a quality service, we dimension our service (i.e. # of telephone lines) for a P.01 grade of service. This avoids busy signals, keeps the community calling, and our customers happy. To get the P.01 grade of service, we have to have enough individual telephone lines hooked to our equipment in order to handle the volume of calls. IT IS THE VOLUME OF INCOMING CALLS (i.e. DEMAND FOR THE SERVICE) WHICH DICTATES THE NUMBER OF LINES NEEDED.

Our service in Orlando (1.5 million calls per month) needs sixty-eight lines, and Gainesville (450,000 calls per month) needs twenty-two lines in order to provide P.01 grade service. TWTA does not control the number of incoming lines needed. This is determined by community demand.

ADVERSE ECONOMIC EFFECT

First, we understand that the FCC goal is to set telephone line rates equal to their cost. Under our present tariff rate charged by Southern Bell, we presently pay the B-1 rate, plus an additional network usage rate based on the amount of hours our circuits are used. This network usage charge averages approximately twenty percent of the B-1 rate. It is our feeling that this charge is already at cost for the phone company service provided, and that the additional Federal access charge will price the service well above cost.

Second, and most importantly, we feel demand for the telephone service for small businesses should be sensitive to rate increases. Telephone costs are an obviously high percentage of total costs for TWTA and therefore much more difficult, if not impossible for us to pass on to our customers. In fact, due to competing advertising medium (i.e. radio, TV, billboards) our pricing must not only be competitive but will be well below current advertising rates within the community in order to attract customers to this new medium. Yet the dollars to pay these access fees must come from somewhere, Congressman Bilirakis, and that somewhere is our bottom line. Because of the Federal Access fee, we can prove the direct loss of profit of 17% for our Orlando and Tampa operations, and a 30% reduction for Gainesville.

IMPACT ON TWTA

We feel that the present Federal access charge is clearly discriminating against not only TWTA, but against small businesses as a whole. If the

FCC theory was that the large business subsidise residential customers, unless a flat end user charge was imposed, we feel that because of the delayed imposition of the charge on residential and single line business customers, that it in fact has shifted the revenue burden from the large business customers to the smaller business customers.

If the Federal access charge is not removed, we feel we have little options in order to reduce our telephone costs. We feel our options are:

a. Reduce our number of phone lines, thus jeopardising the integrity of our service and reduce revenue to the phone company

or

b. Simply pull the plug on all of the machines, greatly affecting the people in Orlando, Gainesville, and Tampa Bay communities.

ACTION REQUEST

Congressman Bilirakis... we feel the Federal access fees are unduly burdensome on small businesses and particularly discriminatory against businesses such as Time, Weather, Temperature Advertising. We are requesting a review by your Task Force on the effects of this end user charge. We hope a more equitable situation can be found, and that services such as TWTA will be exempt due to our present "at cost" telephone charges.

Thank you for reviewing our situation and we will remain at your disposal if any further information is needed.

Very truly yours,

Ronald J. Clark

Ronald J. Clark
Vice President

Clark Cashes In on the AT&T Breakup

First it was phone manufacturing and long distance telephone companies. Now, a new group of entrepreneurs — private dispensers of time and weather information — have joined the scramble to cash in on the breakup of AT&T.

In years past, the friendly voice on those time and temperature recordings was a public service brought to you courtesy of your local phone company. But ever since the AT&T breakup, confusion has abounded over whether the new Bell companies must divest themselves of the handy little recordings.

While the courts decide, many phone companies are voluntarily pulling the plug on time and weather numbers, allowing private companies to take over. One of those companies is TWTA, a Tampa-based firm that has assumed the rights to time and temperature numbers from Southern Bell in Orlando and Gainesville and General Telephone Co. in the Tampa Bay area. Owned by entrepreneur **Ronnie Clark**, 28, and employment agency owner **Gale Porter**, 49, TWTA makes money by selling the sponsorship of the time and weather recordings to local advertisers. Thus, when a caller phones one of the numbers, he hears not only the time of day, the temperature, and weather recordings, but also a five-second advertisement. An advantage of the medium for advertisers, says Clark, is that it eliminates the "tune-out" factor. "If you're watching TV, you can go fix a sandwich during the commercial. But if you're trying to find out what time it is, your mind is going to be tuned to what's going on." Clark is planning to expand his company to other cities in the United States. In the Orlando market alone, he says, more than two million callers use the phone-in time and temperature service each month.

Florida Trend / April 1984

Copyright 1984
FLORIDA TREND, INC
P.O. Box 611 St. Petersburg FL 33731

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

[illegible] • Tampa, Florida [illegible] • [illegible]

DEMOGRAPHIC PROFILE

CLEARWATER

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

- females are more likely to call than males.
- individuals between the ages of 30-49 years.
- married individuals are more to call than unmarried individuals.
- individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

- females are more likely to call than males.
- individuals under 30 years of age.
- individuals with at least a high school education are more likely to call.
- single individuals are slightly more likely to call than married individuals.
- individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather, and Temperature in 1984 is estimated to average 500,000 calls monthly in the Clearwater calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

6/84

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

[illegible] • Tampa, Florida 33602 • [illegible]

DEMOGRAPHIC PROFILE

TAMPA

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

- females are more likely to call than males.
- individuals between the ages of 30-49 years of age.
- married individuals are more likely to call than unmarried individuals.
- individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

- females are more likely to call than males.
- individuals under 30 years of age.
- individuals with at least a high school education are more likely to call.
- single individuals are slightly more likely to call than married individuals.
- individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather, and Temperature in 1984 is estimated to average 2,000,000 calls monthly in the Tampa calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISIN

1100 Florida Avenue • Tampa, Florida 33602 • Phone

DEMOGRAPHIC PROFILE

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community. Southern Bell was one of twenty Bell companies which participated in this survey.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

-females are more likely to call than males.

-individuals between the ages of 30-49 years of age.

-individuals with at least a high school education.

-married individuals are more likely to call than unmarried individuals.

-individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

-females are more likely to call than males.

-individuals under 30 years of age.

-individuals with at least a high school education are more likely to call.

-single individuals are slightly more likely to call than married individuals.

-individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather and Temperature in 1983 is estimated to average 500,000 calls monthly in the Gainesville calling area. Over 60% of the total population will call Time, Weather and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather and Temperature, you know they are listening to your message.

9/84

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

[illegible] • [illegible] 3360? • Phone [illegible]

DEMOGRAPHIC PROFILE

ORLANDO

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

- females are more likely to call than males.
- individuals between the ages of 30-49 years of age.
- individuals with at least a high school education.
- married individuals are more likely to call than unmarried individuals.
- individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

- females are more likely to call than males.
- individuals under 30 years of age.
- individuals with at least a high school education.
- single individuals are slightly more likely to call than married individuals.
- individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather and Temperature in 1984 is estimated to average 1,709,000 calls monthly in the Orlando calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

6/84

TWTA

TIME, WEATHER, TEMPERATURE ADVERTISING

1100 Florida Avenue • Tampa, Florida 33602 • Phone: 813

DEMOGRAPHIC PROFILE

ST. PETERSBURG

According to statistical information of a nationwide study of nearly fifty years of call data compiled by Chilton Research, Time, Weather, and Temperature Services will achieve a 71% adult calling audience and is viewed as a valuable service to the community.

The demographic characteristics of callers would be very attractive to advertisers as they reflect above average education and income levels. The Chilton survey showed the following characteristics:

Among those individuals who call for "weather":

- females are more likely to call than males.
- individuals between the ages of 30-49 years of age.
- married individuals are more likely to call than unmarried individuals.
- individuals being in households with an income of $39,560* or higher are more likely to call.

Among those individuals who call for "time":

- females are more likely to call than males.
- individuals under 30 years of age.
- individuals with at least a high school education are more likely to call.
- single individuals are slightly more likely to call than married individuals.
- individuals being in households with an income of less than $39,560* are more likely to call.

*adjusted for inflation since study

Time, Weather, and Temperature in 1984 is estimated to average 800,000 calls monthly in the St. Petersburg calling area. Over 60% of the total population will call Time, Weather, and Temperature in an average month and 38% will hear 4 messages in an average 16-day period.

When individuals call Time, Weather, and Temperature, you know they are listening to your message.

447-6611

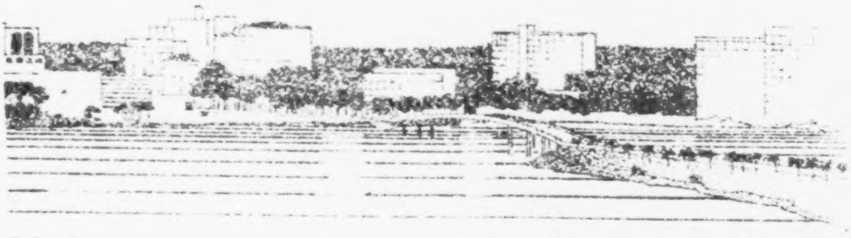
A Better Way to Advertise . . .
TWTA

TWTA

1100 N. Florida Avenue
Tampa, Florida 33602

(813) 223 5277

A Clearwater Tradition



Time • Weather • Temperature ADVERTISING

The people of Clearwater and surrounding communities have, for over 25 years, been able to receive accurate time information by calling a telephone number. This reliable information has been used to set watches, clocks, and to help keep appointments. Now one phone call not only gives you the correct time, but lets you decide how to dress for the day's activities. One phone number that people trust and rely on . . .

447-6611

A recent Supreme Court decision ruled that telephone companies must divest themselves of some of their holdings. One of these holdings was Clearwater's time of day number. With that ruling, TWTA *purchased the rights to that number and installed state-of-the-art Audichron equipment, also used by the National Bureau of Standards to broadcast the standard time for the Western Hemisphere. Now* TWTA *is expanding this service to provide Clearwater with time, weather and temperature. Sponsorship of this service is available in a more flexible format than ever before. This trusted community service can be a vital part of your company's marketing and public relations program.*

- 450,000 calls per month
- 15,000 calls per day
- Excellent demographic characteristics
- Unique advertising medium
- Undivided attention of caller
- Caller initiated action
- Flexibility of messages
- Exact count of contacts

All print, broadcast and outdoor media rely on sample surveys or traffic counts to measure their effectiveness. However, these surveys only **estimate** *how many TV's and radios are on, how many newspapers are read, or how many cars passed by a given location. They can't tell you how many people left the room, talked or in some other way were inattentive during commercials. Think about the paper you read today and how many billboards you passed on your way to work. How many advertisements can you recall from the paper? Whose billboards did you pass? You are one of the numbers estimated in the surveys and traffic counts and one of the prospects those advertisers are trying to reach. Ask yourself...*HOW MANY PEOPLE CALL 447-6611 AND DON'T LISTEN? TWTA *can and will provide you with an exact count of how many callers receive your message.*

Now this new and exciting sales medium is available to you. You may purchase all the advertising and be an exclusive sponsor or you may share the cost with other sponsors in a rotating format.

Because the caller initiates the contact and is listening intently in a non-competitive environment, a high quality impression that will be remembered is assured. Multiply this quality impression by 15,000 calls **per day** *and the impact of your message becomes very significant.*

Time, weather, temperature is viewed by the public as a valued service made possible by civic minded sponsors. The potential for name awareness and a positive public image is unsurpassed.

TWTA *can establish a cost-effective communication system between you, your customers and potential customers 24 hours a day, 7 days a week while building your image and awareness.*

Time, Weather, Temperature Advertising
1100 N. Florida Avenue
Tampa, FL 33602
(813)223-5277

APPENDIX C.—STATEMENT RECEIVED FROM KEITH BISSELL, CHAIRMAN, TENNESSEE PUBLIC SERVICE COMMISSION

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

October 24, 1984

Congressman Ron Wyden
1406 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Wyden;

I certainly appreciate the opportunity you extended to me to address the Small Business Committee on telephone service and the effects of access charges.

As we discussed last Friday, the Commission has approved three basic local exchange service options that provide an alternative to standard flat rate service of South Central Bell Telephone Company.

These alternative services include, Standard Measured Rate Service, Economy Low Use Service, and Message Lifeline Service. Measured and Message Rate Services are available options to approximately 72% of South Central Bell's customers in Tennessee. Today, South Central Bell has over 140,000 subscribers using these services and eventually these services will be available to all of this Company's customers as equipment is replaced and updated across the state.

I have attached a printed pamphlet, identified as Attachment I, which describes the four basic local exchange service options available to the majority of subscribers in Tennessee.

The Commission has been very active in an effort to simplify the bill presentation of South Central Bell to it's customers. Attachment II, is a copy of the "Existing Bill Format" of South Central Bell. In response to the Commission's investigation of the bill format, South Central Bell has proposed a change in the bill which is identified as Attachment III labeled "Proposed Bill Format". This change, which reflects a substantial improvement over the existing bill, will be implemented in mid 1985.

Please contact Richard Bibb, of my staff, at (615) 741-2791 if you have questions or need additional information. Thank you again for holding the hearing in Nashville.

Sincerely,

Keith Bissell

Keith Bissell
Chairman

KBmt

attachments

cc: Congressman Jim Cooper
425 Cannon House Office Building
Washington, D.C. 20515

Mr. Kent Hall
Small Business Committee
2361 Rayburn House Office Building
Washington, D.C. 20515

ATTACHMENT I

With Local Measured Service you pay less.

Local Measured Service lets you cut 30% or more off the monthly bill for your local telephone line*

With the Flat Rate Service you have now, you pay the same amount for your local phone line no matter how little you use the phone. So if you make only one local call a month, you pay the same as someone who makes 1,000 calls a month.

Now, Local Measured Service gives you several economical options.

With Standard Measured Service you pay a monthly rate that is 30% lower than the premium Flat Rate. That charge includes a local line access fee and a monthly calling allowance. Using the state average of four minutes per call, your monthly allowance would give you about 104 calls. If you use up your allowance, charges for additional calls are added to your bill. But you could make as many as 140 average calls and still pay less than with Flat Rate Service.

Customers who use the phone very little can choose between two different low usage plans. Both plans include local line access fees and monthly calling allowances. But your local calls are measured differently in each plan, and your calling habits will determine which is best for you.

With Lifeline Service you pay a monthly rate that is lower than the Standard Measured Service rate. The calling allowance would give you 30 calls a month. All local calls over that amount cost the same – 10¢ each – no matter how short they are or what time or day you call. If you go over the allowance you could make up to 47 calls a month and pay less than the Standard Measured Service rate, and up to 73 calls a month and pay less than the Flat Rate. If you tend to make relatively few, long calls during weekdays, you might want to consider this option.

With Economy Low Use Service you could pay even less than with Lifeline Service. Charges for local calls vary depending on how long you talk and when you call. For example, the calling allowance would give you about 14 four-minute calls or 34 one-minute calls a month. If you go over the allowance, you could make up to 50 four-minute or 126 one-minute calls and still pay less than the Standard Measured Service rate. And you could make up to 86 four-minute or 215 one-minute calls and pay less than the Flat Rate. Of course, you could make any combination of calls you need. If you tend to make relatively short calls, and call mostly at night and on weekends, you might want to consider this option.

Here's how you're charged for local calls.

With Standard and Economy Low Use Measured Service, equipment in the phone company office measures your outgoing local calls and charges you accordingly. It's a lot like the way you're charged for long distance calls, but the charges are much lower.

Each outgoing local call is measured by the following factors:

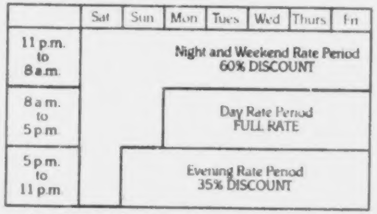
1. How long you talk. There is a base rate charge for the first minute of each call, then a lower rate for each additional minute. Here are the highest rates for Standard or Economy Low Use calls:

First Minute	Each Additional Minute
4¢	2¢

For example, the highest cost for a four-minute Standard or Economy Low Use call would be 10¢.

About one-half of all calls from homes last less than two minutes. The average length is four minutes.

2. When you call. The rates shown drop sharply when you call at less busy "discount" times and days, as this chart shows:



For example, a four-minute Standard or Economy Low Use call would cost only 4¢ on a Saturday.

More than one-half of all calls from homes are made during discounted evening/night/weekend time periods.

With Lifeline Service, our equipment measures only how many local calls you make. For each call over the 30-call allowance you are charged 10¢ no matter what time or day you call, or how brief the call is. No discounts apply for calling during evening, night, or weekend time periods.

You're not charged for some calls.

Local Measured Service charges apply only to calls made from or billed to your home phone. Calls coming into your home phone aren't charged to you. Neither are calls to the operator ("0"), the "911" emergency number, or the phone company business office or repair numbers. You aren't billed for busy signals or calls that aren't answered. If you get a wrong number, you can call the operator and request a credit.

No individual records of the numbers you call are shown on your bill and your calling records remain private.

Local Measured Service may be best for you.

Many people who are already using Local Measured Service are saving money without changing their calling patterns and without losing any of the pleasure on the calls they make. Studies show about one-half of our customers would save with Local Measured Service. It may be best for you, too.

There's no charge to try Local Measured Service. And no charge to switch back.

You can try Local Measured Service without a service charge or visit to your home. And if after one month you decide it isn't best for you, you can change back without a service charge or a visit to your home.

It's easy to order.

To try Local Measured Service, or if you have any questions, call your local Residence Service Center. Or complete the attached order blank and return it to us.

We'll get your service changed to Local Measured Service as soon as possible. So you can start saving.

Information and rates shown are for residence customers only.

Similar plans are available for business customers. For more information on the business plans, call us, toll free, at 1-800-282-8883, extension 10.

---

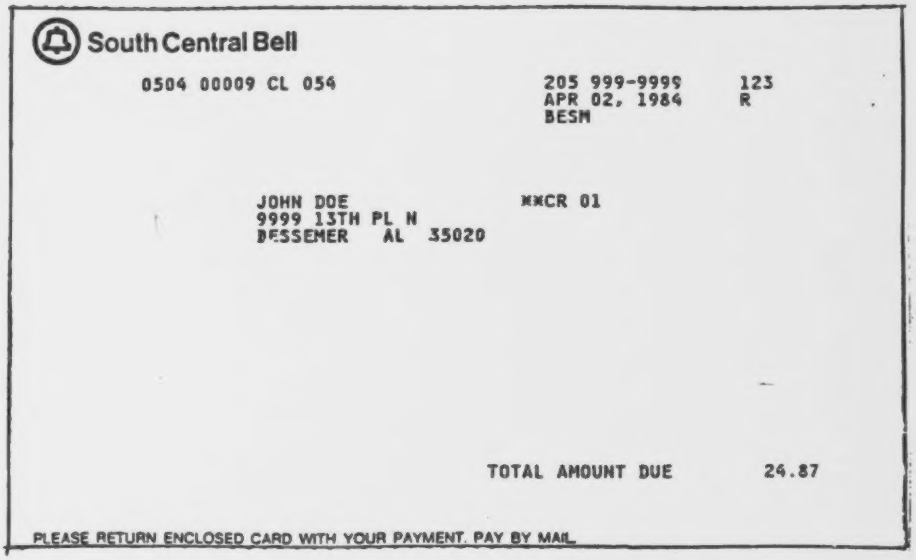
* Includes only the portion of your local phone bill that covers use of the local phone line. Does not include charges for telephone sets, extensions, extra services, or zone charges.

ATTACHMENT II

EXISTING BILL FORMAT

for

TYPICAL RESIDENTIAL CUSTOMER



South Central Bell

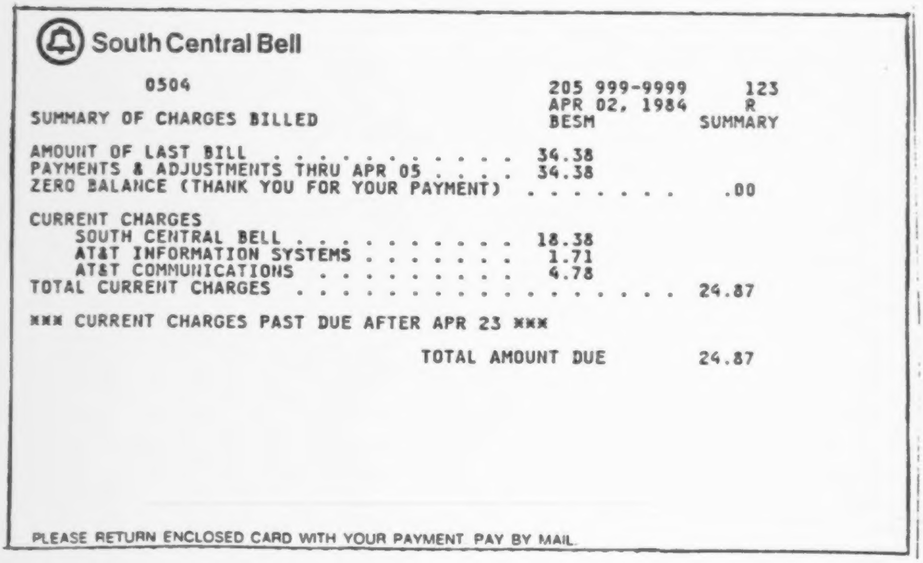
0504 00009 CL 054

205 999-9999 123
APR 02, 1984 R
BESM

JOHN DOE **CR 01
9999 13TH PL N
BESSEMER AL 35020

TOTAL AMOUNT DUE 24.87

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL



South Central Bell

```
        0504                                   205 999-9999     123
                                               APR 02, 1984      R
SUMMARY OF CHARGES BILLED                      BESM           SUMMARY

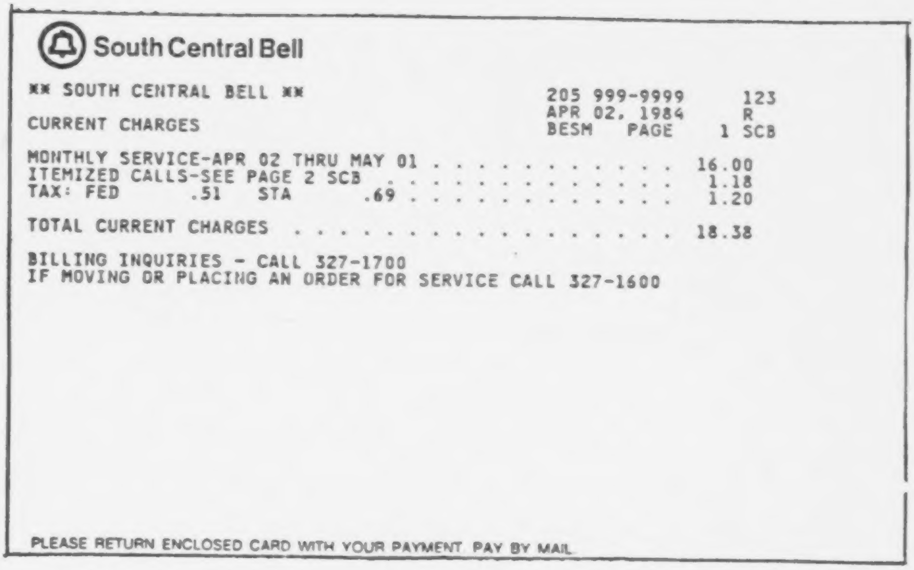
AMOUNT OF LAST BILL . . . . . . . . . . . .  34.38
PAYMENTS & ADJUSTMENTS THRU APR 05 . . . .   34.38
ZERO BALANCE (THANK YOU FOR YOUR PAYMENT) . . . . . . . .       .00

CURRENT CHARGES
    SOUTH CENTRAL BELL . . . . . . . . . . .  18.38
    AT&T INFORMATION SYSTEMS . . . . . . . .   1.71
    AT&T COMMUNICATIONS  . . . . . . . . . .   4.78
TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . .     24.87

*** CURRENT CHARGES PAST DUE AFTER APR 23 ***

                                         TOTAL AMOUNT DUE       24.87
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.



South Central Bell

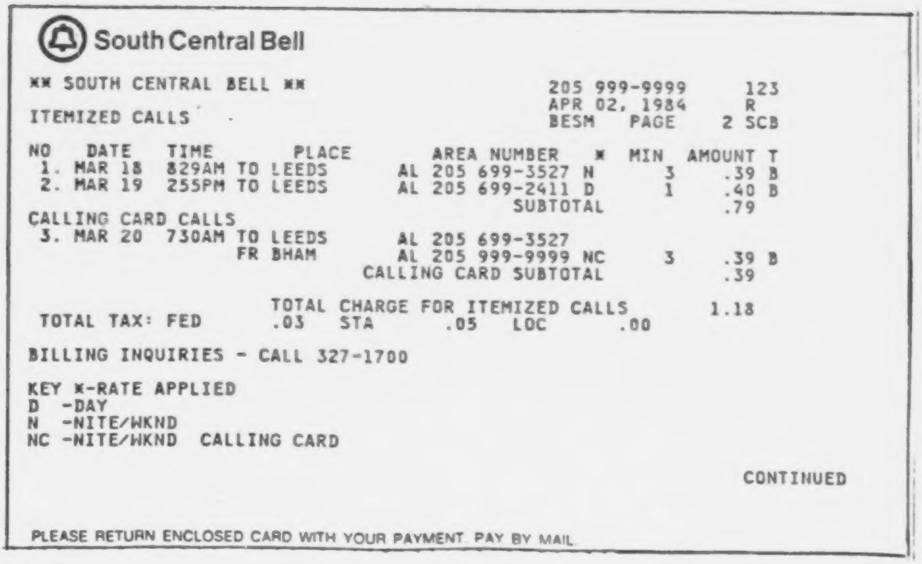
```
** SOUTH CENTRAL BELL **                          205 999-9999     123
                                                  APR 02, 1984      R
CURRENT CHARGES                                   BESM   PAGE     1 SCB

MONTHLY SERVICE-APR 02 THRU MAY 01 . . . . . . . . . . . . .  16.00
ITEMIZED CALLS-SEE PAGE 2 SCB  . . . . . . . . . . . . . . .   1.18
TAX: FED       .51   STA       .69 . . . . . . . . . . . . .   1.20

TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . .  18.38

BILLING INQUIRIES - CALL 327-1700
IF MOVING OR PLACING AN ORDER FOR SERVICE CALL 327-1600
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.



South Central Bell

```
** SOUTH CENTRAL BELL **                          205 999-9999      123
                                                  APR 02, 1984        R
ITEMIZED CALLS                                    BESM   PAGE     2 SCB

NO   DATE   TIME        PLACE        AREA NUMBER   *  MIN  AMOUNT T
 1. MAR 18  829AM TO LEEDS        AL 205 699-3527 N     3     .39 B
 2. MAR 19  255PM TO LEEDS        AL 205 699-2411 D     1     .40 B
                                             SUBTOTAL         .79
CALLING CARD CALLS
 3. MAR 20  730AM TO LEEDS        AL 205 699-3527
                  FR BHAM         AL 205 999-9999 NC    3     .39 B
                                CALLING CARD SUBTOTAL         .39

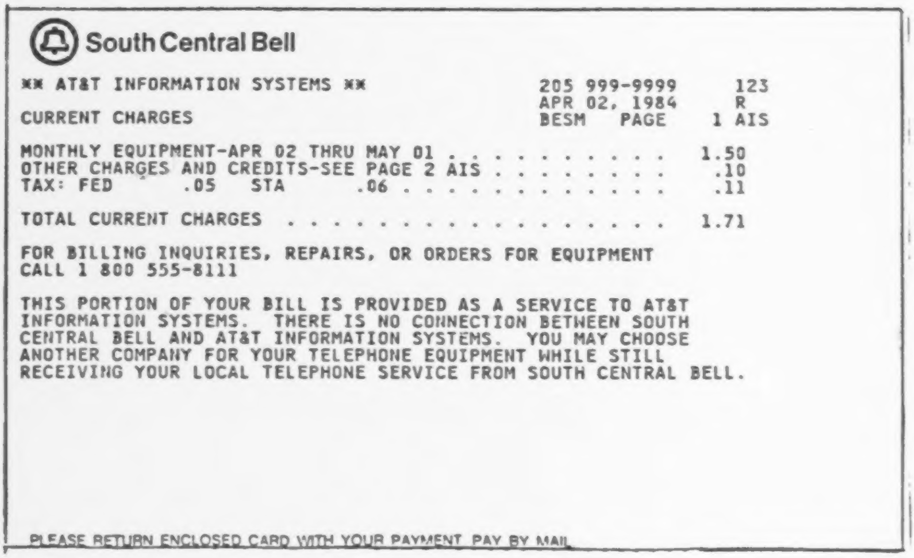
                         TOTAL CHARGE FOR ITEMIZED CALLS     1.18
 TOTAL TAX: FED          .03   STA       .05   LOC       .00

BILLING INQUIRIES - CALL 327-1700

KEY *-RATE APPLIED
D  -DAY
N  -NITE/WKND
NC -NITE/WKND  CALLING CARD

                                                        CONTINUED

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL
```



South Central Bell

```
** AT&T INFORMATION SYSTEMS **                205 999-9999      123
                                              APR 02, 1984       R
CURRENT CHARGES                               BESM    PAGE    1 AIS

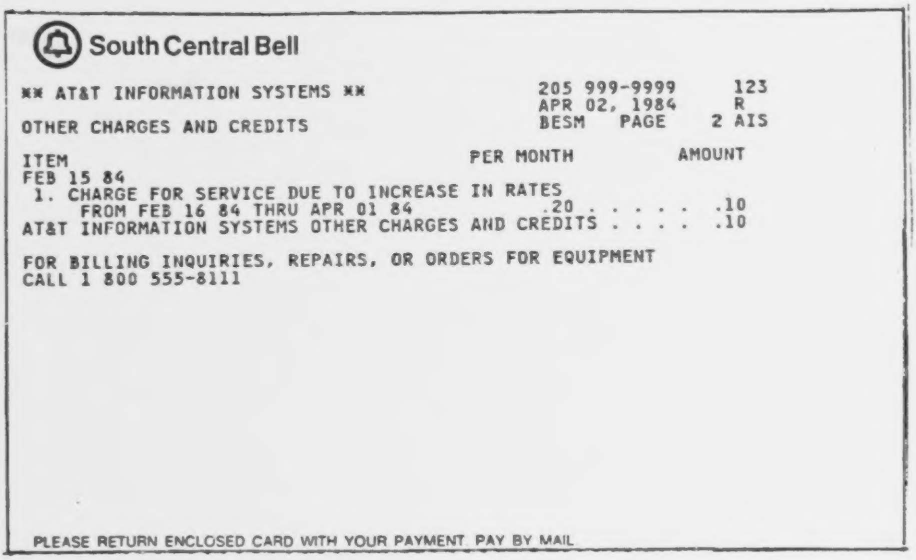
MONTHLY EQUIPMENT-APR 02 THRU MAY 01 . . . . . . . . . . .   1.50
OTHER CHARGES AND CREDITS-SEE PAGE 2 AIS . . . . . . . . .    .10
TAX: FED      .05    STA      .06 . . . . . . . . . . . . .    .11

TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . .   1.71

FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
CALL 1 800 555-8111

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T
INFORMATION SYSTEMS.  THERE IS NO CONNECTION BETWEEN SOUTH
CENTRAL BELL AND AT&T INFORMATION SYSTEMS.  YOU MAY CHOOSE
ANOTHER COMPANY FOR YOUR TELEPHONE EQUIPMENT WHILE STILL
RECEIVING YOUR LOCAL TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.



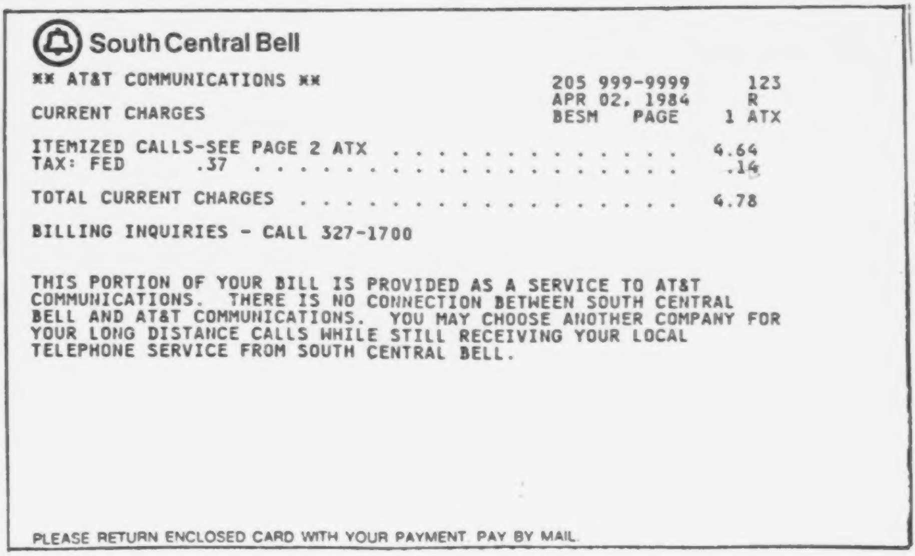
South Central Bell

```
** AT&T INFORMATION SYSTEMS **                    205 999-9999     123
                                                  APR 02, 1984      R
OTHER CHARGES AND CREDITS                         BESM   PAGE    2 AIS

ITEM                                        PER MONTH         AMOUNT
FEB 15 84
 1. CHARGE FOR SERVICE DUE TO INCREASE IN RATES
     FROM FEB 16 84 THRU APR 01 84                .20 . . . . . .10
AT&T INFORMATION SYSTEMS OTHER CHARGES AND CREDITS . . . . .10

FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
CALL 1 800 555-8111
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL



South Central Bell

** AT&T COMMUNICATIONS **

205 999-9999 123
APR 02, 1984 R
BESM PAGE 1 ATX

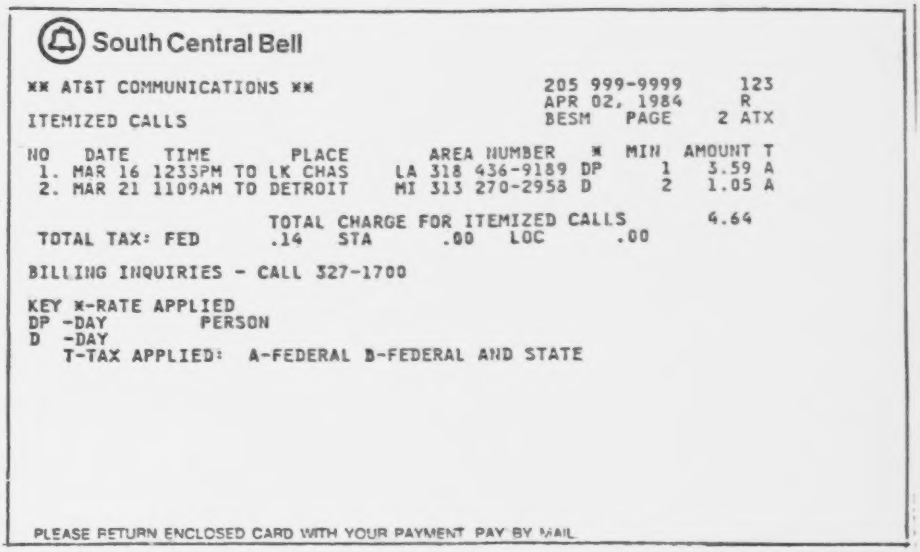
CURRENT CHARGES

ITEMIZED CALLS-SEE PAGE 2 ATX	4.64
TAX: FED .37	.14
TOTAL CURRENT CHARGES	4.78

BILLING INQUIRIES - CALL 327-1700

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T COMMUNICATIONS. THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL BELL AND AT&T COMMUNICATIONS. YOU MAY CHOOSE ANOTHER COMPANY FOR YOUR LONG DISTANCE CALLS WHILE STILL RECEIVING YOUR LOCAL TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.



South Central Bell

```
** AT&T COMMUNICATIONS **                               205 999-9999      123
                                                        APR 02, 1984       R
ITEMIZED CALLS                                          BESM   PAGE    2 ATX

NO   DATE   TIME       PLACE        AREA NUMBER    *  MIN  AMOUNT T
 1. MAR 16 1233PM TO LK CHAS    LA 318 436-9189 DP     1    3.59 A
 2. MAR 21 1109AM TO DETROIT    MI 313 270-2958 D      2    1.05 A

                     TOTAL CHARGE FOR ITEMIZED CALLS        4.64
 TOTAL TAX: FED      .14   STA      .00   LOC      .00

BILLING INQUIRIES - CALL 327-1700

KEY *-RATE APPLIED
DP -DAY          PERSON
D  -DAY
   T-TAX APPLIED:  A-FEDERAL B-FEDERAL AND STATE
```

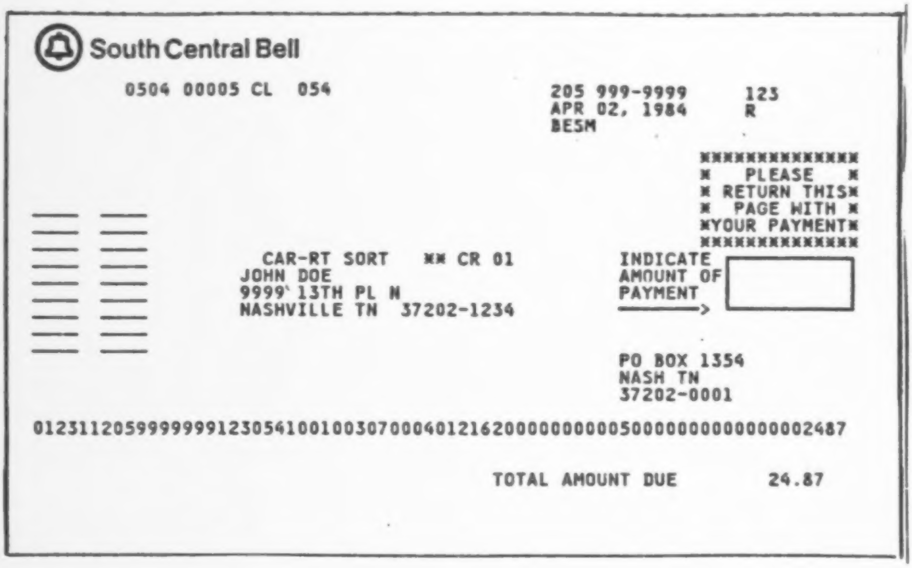
PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT PAY BY MAIL

ATTACHMENT III

PROPOSED BILL FORMAT

for

TYPICAL RESIDENTIAL CUSTOMER



South Central Bell

0504 00005 CL 054

205 999-9999 123
APR 02, 1984 R
BESM

****
* PLEASE *
* RETURN THIS*
* PAGE WITH *
YOUR PAYMENT
****

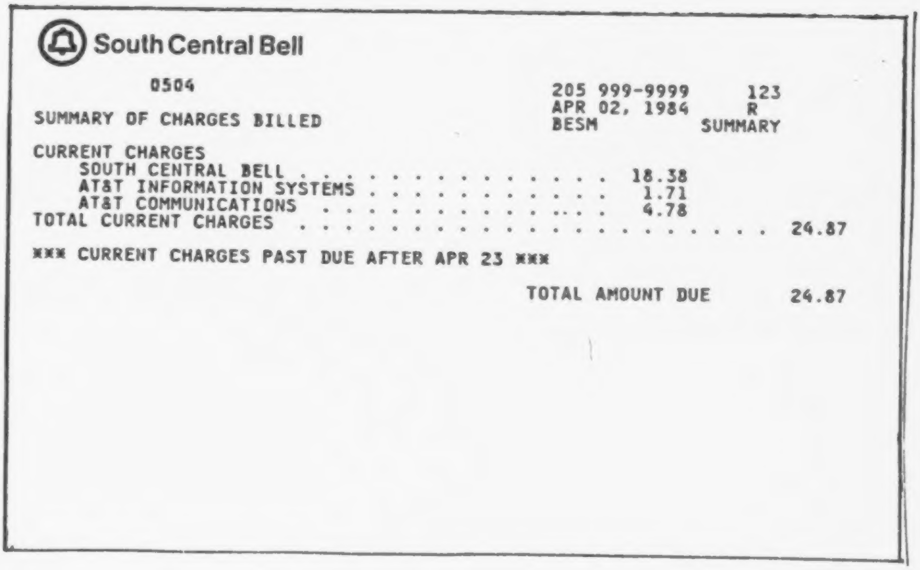
CAR-RT SORT ** CR 01
JOHN DOE
9999 13TH PL N
NASHVILLE TN 37202-1234

INDICATE
AMOUNT OF
PAYMENT
——————>

PO BOX 1354
NASH TN
37202-0001

012311205999999912305410010030700040121620000000000050000000000000002487

TOTAL AMOUNT DUE 24.87



South Central Bell

```
          0504                                    205 999-9999     123
                                                  APR 02, 1984      R
SUMMARY OF CHARGES BILLED                         BESM          SUMMARY

CURRENT CHARGES
    SOUTH CENTRAL BELL . . . . . . . . . . . . . . 18.38
    AT&T INFORMATION SYSTEMS . . . . . . . . . . .  1.71
    AT&T COMMUNICATIONS  . . . . . . . . . . . . .  4.78
TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . . . . . . 24.87

*** CURRENT CHARGES PAST DUE AFTER APR 23 ***

                                              TOTAL AMOUNT DUE        24.87
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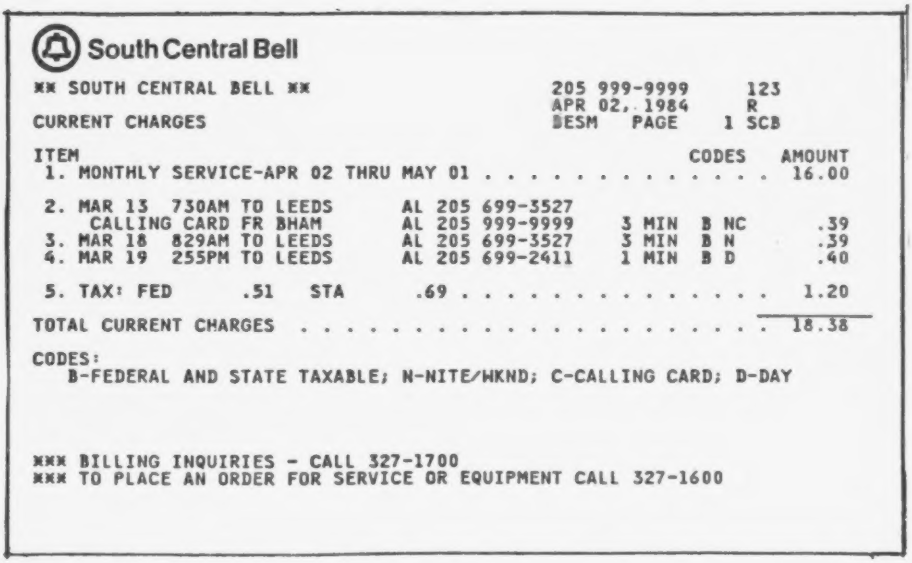


South Central Bell

```
** SOUTH CENTRAL BELL **                        205 999-9999     123
                                                APR 02, 1984     R
CURRENT CHARGES                                 BESM   PAGE    1 SCB

ITEM                                                     CODES   AMOUNT
 1. MONTHLY SERVICE-APR 02 THRU MAY 01 . . . . . . . . . . . . . . 16.00

 2. MAR 13  730AM TO LEEDS      AL 205 699-3527
      CALLING CARD FR BHAM      AL 205 999-9999    3 MIN  B NC       .39
 3. MAR 18  829AM TO LEEDS      AL 205 699-3527    3 MIN  B N        .39
 4. MAR 19  255PM TO LEEDS      AL 205 699-2411    1 MIN  B D        .40

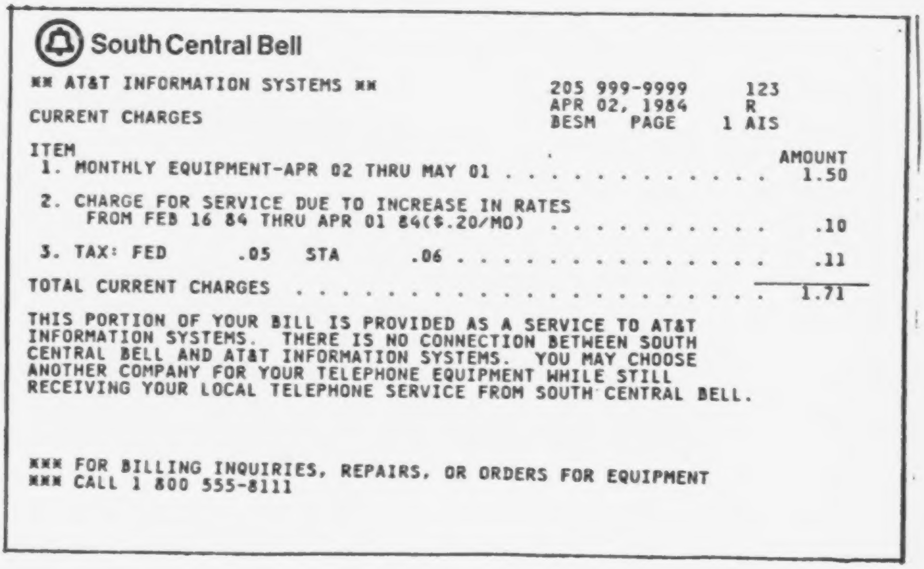
 5. TAX: FED      .51    STA      .69 . . . . . . . . . . . . . . . . 1.20

TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . . . . . . 18.38

CODES:
   B-FEDERAL AND STATE TAXABLE; N-NITE/WKND; C-CALLING CARD; D-DAY



*** BILLING INQUIRIES - CALL 327-1700
*** TO PLACE AN ORDER FOR SERVICE OR EQUIPMENT CALL 327-1600
```



South Central Bell

** AT&T INFORMATION SYSTEMS **

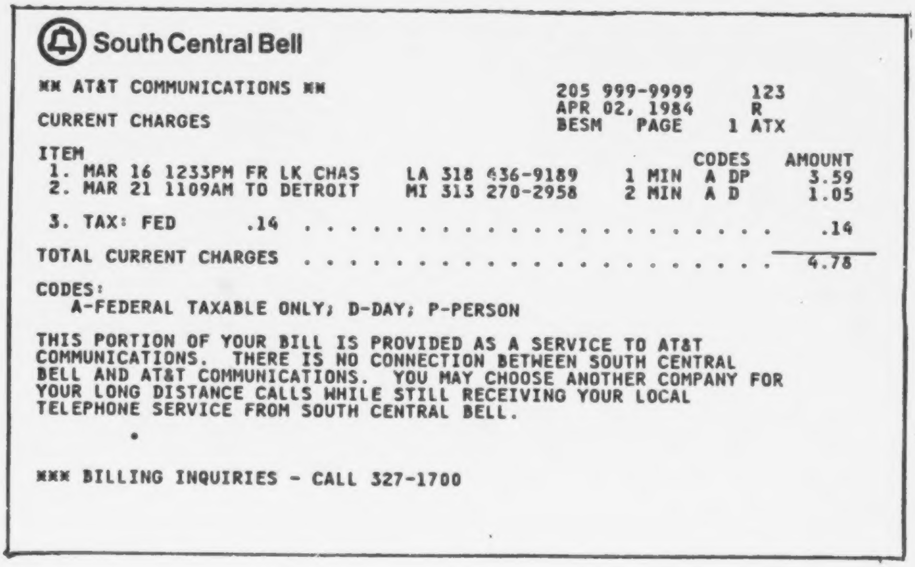
CURRENT CHARGES

205 999-9999 123
APR 02, 1984 R
BESM PAGE 1 AIS

ITEM	AMOUNT
1. MONTHLY EQUIPMENT-APR 02 THRU MAY 01	1.50
2. CHARGE FOR SERVICE DUE TO INCREASE IN RATES FROM FEB 16 84 THRU APR 01 84($.20/MO)	.10
3. TAX: FED .05 STA .06	.11
TOTAL CURRENT CHARGES	1.71

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T INFORMATION SYSTEMS. THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL BELL AND AT&T INFORMATION SYSTEMS. YOU MAY CHOOSE ANOTHER COMPANY FOR YOUR TELEPHONE EQUIPMENT WHILE STILL RECEIVING YOUR LOCAL TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.

*** FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
*** CALL 1 800 555-8111



South Central Bell

```
** AT&T COMMUNICATIONS **                         205 999-9999      123
                                                  APR 02, 1984      R
CURRENT CHARGES                                   BESM    PAGE    1 ATX

ITEM                                                         CODES    AMOUNT
 1. MAR 16 1233PM FR LK CHAS    LA 318 636-9189    1 MIN   A DP      3.59
 2. MAR 21 1109AM TO DETROIT    MI 313 270-2958    2 MIN   A D       1.05

 3. TAX: FED       .14 . . . . . . . . . . . . . . . . . . . . .      .14

TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . . . . .    4.78

CODES:
   A-FEDERAL TAXABLE ONLY; D-DAY; P-PERSON

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T
COMMUNICATIONS.  THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL
BELL AND AT&T COMMUNICATIONS.  YOU MAY CHOOSE ANOTHER COMPANY FOR
YOUR LONG DISTANCE CALLS WHILE STILL RECEIVING YOUR LOCAL
TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.

*** BILLING INQUIRIES - CALL 327-1700
```

APPENDIX D.—ANNUAL AND MONTHLY REPORTS, COMPLAINTS AND INQUIRIES SUBMITTED BY JANE ESKIND, COMMISSIONER, TENNESSEE PUBLIC SERVICE COMMISSION

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

OFFICE OF
JANE ESKIND, COMMISSIONER

PHONE
615-741-0917

November 1, 1984

Mr. Kent Hall
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Hall:

Enclosed as requested are the ten copies of my remarks, the annual and monthly reports from our Utility Service Division, and a review from memory of some of the complaints and inquiries received by that division, over which we no longer have jurisdiction.

If we can be of further help on this or any other matter, please let us know.

Our thanks to you and to Congressman Ron Wyden and Congressman Jim Cooper for coming to Nashville and allowing us the opportunity to express our concerns.

Sincerely yours,

Jane Eskind

Jane Eskind

JE:LC

Enclosures

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

MEMORANDUM

PUBLIC SERVICE COMMISSION
RECEIVED
OCT [illegible] 1984
JANE ESKIND
COMMISSIONER

TO: Commissioner Jane Eskind

FROM: Don McGehee, Director
Utility Service Division

DATE: October 25, 1984

SUBJECT: Complaints Against Non-regulated
Telephone Companies

Pursuant to your request regarding complaints which the Utility Service Division receives against non-regulated telephone companies in Tennessee, the Utility Service Division as you know, does not keep a record of complaints or inquiries against telephone companies which are not under the jurisdiction of the Commission. Therefore, we cannot provide the exact number, but we do receive several complaints and inquiries each day against non-regulated telephone companies.

I would estimate that since January 1, 1984, the Utility Service Division has received between 600 and 700 complaints and inquiries against non-regulated telephone companies.

The following is a list of general complaints, and inquiries which the Utility Service Division receives from telephone consumers against non-regulated telephone companies:

(1) Directory assistance charge by AT&T which was approved by the FCC.

(2) Who do I call for the installation of service and/or transfer of service?

(3) Who do I call for repair service?

(4) Why are intrastate long distance rates higher than interstate?

(5) Why did the Federal Government break up AT&T?

(6) Who is responsible for telephone outages?

(7) Where do I take my store bought telephone for repair?

(8) Why aren't telephone cooperatives regulated by the Commission?

(9) Why don't telephone cooperatives have call waiting, touch-tone, etc.?

(10) Why do telephone companies need rate increases so frequently?

(11) We don't understand our telephone bills.

Attached is a copy of the Utility Service Division's 1983 annual report, and copies of 1984's monthly reports.

If you need further information, please advise.

DMc/ap

Attachment

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

January 19, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank D. Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S ANNUAL REPORT

There were 2,104 complaints received and investigated during the year 1983. East Division 922, Middle Division 682, West Division 500 Complaints received from January 1 to December 31, 1982 - 2,092.

Total number of test calls made in 1983 was 17,710
Total number of pay stations inspected in 1983 was 11,443 and 160 were out of order.

Total number of special investigations received and investigated during 1983 was 315. Total number of special investigations closed during 1983 was 305.

Total number of complaints closed during the year 1983 was 2,377 and 707 of the 2,104 complaints received during 1983 were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

ELECTRIC COMPANY:

Kingsport Power Company	13	*Non-chargeable	10

GAS COMPANIES:

Chattanooga Gas Company	9	*Non-chargeable	8
Hardin County Gas Company	0	*Non-chargeable	0
Hartsville Gas Company	1	*Non-chargeable	0
Nashville Gas Company	44	*Non-chargeable	42

GAS COMPANIES (CON'T.)

Tennessee-Virginia Energy Corp.	4	*Non-chargeable	1
United Cities Gas Company	5	*Non-chargeable	2

MOBILPHONE COMPANIES:

Airsignal International	0	*Non-chargeable	0
Coffee County Answering Service	0	*Non-chargeable	0
Communications Electronics	0	*Non-chargeable	0
Jackson Mobilphone Company	1	*Non-chargeable	1
Lebanon Mobilphone	0	*Non-chargeable	0
Mahaffey Message Relay	0	*Non-chargeable	0
Page-A-Phone	0	*Non-chargeable	0
Pat's Mobilphone	1	*Non-chargeable	0
Prospect Communications	0	*Non-chargeable	0
Radio Call Company	0	*Non-chargeable	0
Southeast Mobilphone	0	*Non-chargeable	0
Telpage of Nashville	3	*Non-chargeable	2
Telpage of Tennessee	1	*Non-chargeable	1

SEWAGE COMPANIES:

Lynnwood Utility Company	0	*Non-chargeable	0
Stonebrook Sewerage System	0	*Non-chargeable	0
Moore's Lane Sewerage Company	0	*Non-chargeable	0

TELEGRAPH COMPANY:

Western Union Telegraph Company	2	*Non-chargeable	1

TELEPHONE COMPANIES

Adamsville Telephone Company	5	*Non-chargeable	4
ALLTEL Tennessee, Inc.	65	*Non-chargeable	57
Ardmore Telephone Company	2	*Non-chargeable	2
Claiborne Telephone Company	9	*Non-chargeable	5
Concord Telephone Company	4	*Non-chargeable	4
Crockett Telephone Company	6	*Non-chargeable	4
General Telephone Company	45	*Non-chargeable	37
Englewood Telephone Company	4	*Non-chargeable	1
Humphreys County Telephone Co.	2	*Non-chargeable	1
Loretto Telephone Company	8	*Non-chargeable	6
Millington Telephone Company	1	*Non-chargeable	1
Ooltewah-Collegedale Telephone Co.	13	*Non-chargeable	8
Peoples Telephone Company	0	*Non-chargeable	0

South Central Bell	1,506	*Non-chargeable	796
Tellico Telephone Company	0	*Non-chargeable	0
Tennessee Telephone Company	94	*Non-chargeable	59
United Inter-Mountain Tel. Co.	182	*Non-chargeable	121
United Telephone Company	8	*Non-chargeable	4
West Tennessee Telephone Co.	0	*Non-chargeable	0

WATER COMPANIES:

Belinda City Service Company	1	*Non-chargeable	1
Cartwright Creek Utility Co.	0	*Non-chargeable	0
Charles R. Chase Water Works	0	*Non-chargeable	0
Freeman Water Company	2	*Non-chargeable	0
Friendship Water Company	0	*Non-chargeable	0
Henry County Water Company	0	*Non-chargeable	0
J E T Waterworks	0	*Non-chargeable	0
Lakeland Utility Company	0	*Non-chargeable	0
Pine Lake Mobile Estates	0	*Non-chargeable	0
Riverbend Service Company	1	*Non-chargeable	0
Roan Mountain Water Company	0	*Non-chargeable	0
Royal Oaks Service Company	0	*Non-chargeable	0
Sequatchie Water Works	0	*Non-chargeable	0
Tennessee-American Water Company	60	*Non-chargeable	41
West Tennessee Water Company	2	*Non-chargeable	0

Types of Complaints Received During the Year 1983 for South Central Bell

---

New Phone Installation	225		
Billing	168	*Non-chargeable	168
Deposit	110	*Non-chargeable	110
Multi-party	0	*Non-chargeable	0
Harassment of Obscene	37	*Non-chargeable	37
Out of order	168	*Non-chargeable	18
Miscellaneous	798	*Non-chargeable	463

Types of Complaints Received During the Year 1983 for United Inter Mtn. Tel. Co.

New Phone Installation------------ 16 *Non-chargeable 1

Billing--------------------------- 29 *Non-chargeable 28

Deposit--------------------------- 5 *Non-chargeable 5

Multi-party----------------------- 9 *Non-chargeable 1

Harassment or Obscene------------- 6 *Non-chargeable 6

Out of order---------------------- 17 *Non-chargeable 3

Miscellaneous--------------------- 100 *Non-chargeable 77

Total number of complaints Investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations
RAY COATS	333	736	184	39
MARILYN DIGGONS	113	451	186	29
BILLY HOUSEWRIGHT	207	300	12	33
JIM LESTER	303	582	0	36
GLADYS LINTON	77	339	147	11
JOE MYERS	170	501	178	46
EDDIE ROBERSON	271	430	7	29
BOB STANLEY	174	388	0	18
JAMES WATTS	446	1,057	0	44
CENTRAL OFFICE	10		0	30

TEST CALLS:

Ray Coats made 4,249 test calls.
Marilyn Diggons made 3,397 test calls.
Billy Housewright made 321 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 2,797 test calls.
Joe Myers made 3,100 test calls.
Eddie Roberson made 154 test calls.
Bob Stanley made 3,463 test calls.
James Watts made 12 test calls.

PAY STATIONS

Ray Coats inspected 3,414 pay stations.
Marilyn Diggons inspected 1,649 pay stations.
Billy Housewright inspected 376 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 1,218 pay stations.
Joe Myers inspected 3,790 pay stations.
Eddie Roberson inspected 28 pay stations.
Bob Stanley inspected 431 pay stations.
James Watts inspected 284 pay stations.

The Utility Service Division held three (3) service meetings during the year 1983.

The Utility Service Division held fifty (50) Commission public hearings during the year 1983.

PETITIONS:

South Central Bell --- four petitions for extended area service (EAS).

United Inter-Mountain Telephone Company and South Central Bell---one petition for extended area service (EAS).

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

February 1, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank D. Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of January 220 East Division 95 Middle Division 76 West Division 49
Total number of complaints received since January 1, 1984 - 220.
Complaints received from January 1 to February 1, 1983 - 159.

Total number of test calls made in January 1,387.
Total number of pay stations inspected in January 955 and 13 were out of order. Total number of special investigations in January 40.

Total number of complaints closed during the month of January 312 and 145 complaints of the 220 complaints received during January were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	2	1	1
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	4	3	1
United Cities Gas Company	0	0	0
Tennessee-Virginia Energy Corporation	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Coffee County Answering Service	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
Ardmore Telephone Company	0	0	0
Claiborne Telephone Company	1	0	1
Concord Telephone Company	0	0	0
Crockett Telephone Company	1	1	0
Englewood Telephone Company	3	1	1
General Telephone Company	8	4	3
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	1	1	0
Peoples Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	3	3	0
AT&T	12	1	9
South Central Bell	164	88	0

TELEPHONE COMPANIES (CON'T)	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE	PENDING:
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	3	0	2
United Inter-Mountain Tel. Co.	10	5	2
United Telephone Company	1	0	1
West Tennessee Telephone Co.	0	0	0

WATER COMPANIES:			
Belinda City Service Company	0	0	0
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Pine Lake Mobile Estates	0	0	0
Riverbend Service Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	7	3	3
West Tennessee Water Company	0	0	0

SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of January for South Central Bell

New Phone Installation -------------	17	0	0
Billing ----------------------------	11	11	0
Deposit ----------------------------	14	14	0
Multi-party ------------------------	0	0	0
Harassment or Obscene --------------	4	4	0

Types of Complaints Received During the Month of January for South Central Bell (Con't)	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Out of Order ----------------------	9	1	0
Miscellaneous ---------------------	109	58	0

Types of Complaints Received During the Month of January for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	1	0	0
Billing ---------------------------	1	1	0
Deposit ---------------------------	0	0	0
Multi-party -----------------------	1	0	0
Harassment or Obscene -------------	0	0	0
Out of Order ----------------------	0	0	0
Miscellaneous ---------------------	7	4	2

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	19	52		3
MARILYN DIGGONS	17	41	15	0
BILLY HOUSEWRIGHT	17	35		2
JIM LESTER	36	62		8
GLADYS LINTON	14	35	15	2
JOE MYERS	17	64	5	6
EDDIE ROBERSON	33	62		4
BOB STANLEY	20	31		3
JAMES WATTS	44	104		6
CENTRAL OFFICE	3			6

TEST CALLS:

Ray Coats made 230 test calls.
Marilyn Diggons made 322 test calls.
Billy Housewright made 51 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 280 test calls.
Joe Myers made 224 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 280 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 289 pay stations.
Marilyn Diggons inspected 136 pay stations.
Billy Housewright inspected 119 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 105 pay stations.
Joe Myers inspected 301 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

Billy Housewright completed a special telephone training program.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

March 2, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of February 178 East Division 89 Middle Division 53 West Division 36
Total number of complaints received since January 1, 1984 - 398 .
Complaints received from January 1 to March 1, 1983 - 291 .

Total number of test calls made in February 1,392 .
Total number of pay stations inspected in February 947 and 14 were out of order. Total number of special investigations in February 171 .

Total number of complaints closed during the month of February 155 and 45 complaints of the 178 complaints received during February were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	2	1	1
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	6	5	1
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	1	1	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	1	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	4	4	0
Ardmore Telephone Company	0	0	0
AT&T Communications	9	0	5
Claiborne Telephone Company	1	0	0
Concord Telephone Company	0	0	0
Crockett Telephone Company	0	0	0
Englewood Telephone Company	0	0	0
General Telephone Company	3	2	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	1	1	0
Peoples Telephone Company	0	0	0
South Central Bell	129	74	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	2	1	0
United Inter-Mountain Tel. Co.	12	8	0
United Telephone Company	0	0	0
West Tennessee Telephone Co.	1	0	1
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	6	4	1
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of February for South Central Bell

New Phone Installation --------------	8	0	0
Billing -----------------------------	13	13	0
Deposit -----------------------------	9	9	0
Multi-party -------------------------	0	0	0
Harassment or Obscene ---------------	2	2	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of February for South Central Bell (Con't)			
Out of Order ----------------------	4	2	0
Miscellaneous ---------------------	93	48	0
Types of Complaints Received During the Month of February for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	1	0	0
Billing ---------------------------	1	1	0
Deposit ---------------------------	0	0	0
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	1	1	0
Out of Order ----------------------	1	0	0
Miscellaneous ---------------------	8	6	0

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	15	72	20	13
MARILYN DIGGONS	16	66	23	3
BILLY HOUSEWRIGHT	15	42	4	15
JIM LESTER	23	54		17
GLADYS LINTON	7	49	19	
JOE MYERS	16	70	1	40
EDDIE ROBERSON	22	51		30
BOB STANLEY	14	31		29
JAMES WATTS	50	82		18
CENTRAL OFFICE				6

TEST CALLS:

Ray Coats made 353 test calls.
Marilyn Diggons made 373 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 252 test calls.
Joe Myers made 196 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 218 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 306 pay stations.
Marilyn Diggons inspected 136 pay stations.
Billy Housewright inspected 68 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 182 pay stations.
Joe Myers inspected 255 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

The Director and Eddie Roberson participated in a service meeting which was held in Etowah.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

April 3, 1984

TO:
Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: DM Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of March 179 East Division 71 Middle Division 70 West Division 38
Total number of complaints received since January 1, 1984 - 577.
Complaints received from January 1 to April 1, 1983 - 443.

Total number of test calls made in March 1,176.
Total number of pay stations inspected in March 980 and 25 were out of order. Total number of special investigations in March 38.

Total number of complaints closed during the month of March 215 and 41 complaints of the 179 complaints received during March were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	4	4	0
GAS COMPANIES:			
Chattanooga Gas Company	1	0	1

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	9	8	1
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	1	1	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	4	4	0
Ardmore Telephone Company	0	0	0
AT&T Communications	9	0	6
Claiborne Telephone Company	0	0	0
Concord Telephone Company	0	0	0
Crockett Telephone Company	0	0	0
Englewood Telephone Company	0	0	0
General Telephone Company	0	0	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	0	0	0
Peoples Telephone Company	0	0	0
South Central Bell	130	74	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	4	3	1
United Inter-Mountain Tel. Co.	12	5	6
United Telephone Company	0	0	0
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	1	0	1
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	0	0	0
Tennessee Water Service, Inc.	4	3	1
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of March for South Central Bell

New Phone Installation --------------	10	0	0
Billing ----------------------------	13	13	0
Deposit ----------------------------	8	8	0
Multi-party ------------------------	0	0	0
Harassment or Obscene --------------	3	3	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of March	for South Central Bell (Con't)		
Out of Order ----------------------	9	2	0
Miscellaneous ---------------------	87	48	0
Types of Complaints Received During the Month of March	for United Inter-Mt. Tel. Co.		
New Phone Installation ------------	2	0	1
Billing ---------------------------	1	1	0
Deposit ---------------------------	0	0	0
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	1	1	0
Out of Order ----------------------	0	0	0
Miscellaneous ---------------------	8	4	1

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	21	53	12	6
MARILYN DIGGONS	11	82	11	0
BILLY HOUSEWRIGHT	21	35		2
JIM LESTER	38	84		5
GLADYS LINTON	8	45	7	1
JOE MYERS	20	62	1	8
EDDIE ROBERSON	20	49		1
BOB STANLEY	9	36		3
JAMES WATTS	30	152		10
CENTRAL OFFICE	1			2

TEST CALLS:

Ray Coats made 378 test calls.
Marilyn Diggons made 345 test calls.
Billy Housewright made 42 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 0 test calls.
Joe Myers made 0 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 215 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 357 pay stations.
Marilyn Diggons inspected 109 pay stations.
Billy Housewright inspected 85 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 89 pay stations.
Joe Myers inspected 340 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

May 1, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of
April 149 East Division 72 Middle Division 46 West Division 31
Total number of complaints received since January 1, 1984 - 726 .
Complaints received from January 1 to May 1, 1983 - 612 .

Total number of test calls made in April 2,128 .
Total number of pay stations inspected in April 1,128 and 13 were out of
order. Total number of special investigations in April 22 .

Total number of complaints closed during the month of April 166 and 42
complaints of the 149 complaints received during April were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	1	0	0
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	2	2	0
Tennessee-Virginia Energy Corporation	1	0	1
United Cities Gas Company	3	2	1
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	1	0	1
ALLTEL Tennessee, Inc.	5	2	3
Ardmore Telephone Company	1	0	1
AT&T Communications	9	2	0
Claiborne Telephone Company	1	0	0
Concord Telephone Company	0	0	0
Crockett Telephone Company	0	0	0
Englewood Telephone Company	0	0	0
General Telephone Company	1	0	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	1	0	1
Ooltewah-Collegedale Telephone Co.	0	0	0
Peoples Telephone Company	0	0	0
South Central Bell	107	68	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	2	1	0
United Inter-Mountain Tel. Co.	11	7	4
United Telephone Company	0	0	0
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	3	1	2
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of April for South Central Bell

New Phone Installation --------------	15	0	0
Billing ----------------------------	8	8	0
Deposit ----------------------------	10	10	0
Multi-party ------------------------	0	0	0
Harassment or Obscene --------------	7	7	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of April for South Central Bell (Con't)			
Out of Order ----------------------	4	2	0
Miscellaneous ---------------------	63	41	0
Types of Complaints Received During the Month of April for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	2	0	1
Billing ---------------------------	0	0	0
Deposit ---------------------------	0	0	0
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	1	1	0
Out of Order ----------------------	0	0	0
Miscellaneous ---------------------	8	6	3

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	18	45	4	5
MARILYN DIGGONS	10	60	21	1
BILLY HOUSEWRIGHT	18	25	1	2
JIM LESTER	25	64		5
GLADYS LINTON	3	45	25	2
JOE MYERS	14	41	7	2
EDDIE ROBERSON	15	32		1
BOB STANLEY	7	24		1
JAMES WATTS	39	84		3
CENTRAL OFFICE				

TEST CALLS:

Ray Coats made 357 test calls.
Marilyn Diggons made 406 test calls.
Billy Housewright made 28 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 595 test calls.
Joe Myers made 462 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 280 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 345 pay stations.
Marilyn Diggons inspected 139 pay stations.
Billy Housewright inspected 68 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 355 pay stations.
Joe Myers inspected 221 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

Eddie Roberson conducted a service audit of United Inter-Mountain Telephone Company.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

June 6, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of May 168 East Division 83 Middle Division 55 West Division 30
Total number of complaints received since January 1, 1984 - 894.
Complaints received from January 1 to June 1, 1983 - 798.

Total number of test calls made in May 1,162.
Total number of pay stations inspected in May 762 and 14 were out of order. Total number of special investigations in May 27.

Total number of complaints closed during the month of May 135 and 42 complaints of the 168 complaints received during May were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	0	0	0
GAS COMPANIES:			
Chattanooga Gas Company	1	1	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	0	0	0
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	6	2	2
Ardmore Telephone Company	0	0	0
AT&T Communications	5	0	1
Claiborne Telephone Company	0	0	0
Concord Telephone Company	0	0	0
Crockett Telephone Company	1	1	0
Englewood Telephone Company	0	0	0
General Telephone Company	3	3	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	2	2	0
Peoples Telephone Company	0	0	0
South Central Bell	127	67	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	4	2	0
United Inter-Mountain Tel. Co.	14	5	9
United Telephone Company	2	1	1
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	1	0	1
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	2	0	2
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of May for South Central Bell

New Phone Installation --------------	18	0	0
Billing -----------------------------	4	4	0
Deposit -----------------------------	4	4	0
Multi-party -------------------------	0	0	0
Harassment or Obscene --------------	1	1	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of May for South Central Bell (Con't)			
Out of Order ----------------------	21	4	0
Miscellaneous ---------------------	79	54	0
Types of Complaints Received During the Month of May for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	1	0	1
Billing ---------------------------	1	0	1
Deposit ---------------------------	1	0	1
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	0	0	0
Out of Order ----------------------	1	1	0
Miscellaneous ---------------------	10	3	7

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	16	25		2
MARILYN DIGGONS	4	18	12	
BILLY HOUSEWRIGHT	15	45		4
JIM LESTER	19	56		6
GLADYS LINTON	11	37		1
JOE MYERS	22	42	1	2
EDDIE ROBERSON	18	27		6
BOB STANLEY	14	23		1
JAMES WATTS	48	81		4
CENTRAL OFFICE	1			1

TEST CALLS:

Ray Coats made 210 test calls.
Marilyn Diggons made 210 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 210 test calls.
Joe Myers made 252 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 280 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 255 pay stations.
Marilyn Diggons inspected 68 pay stations.
Billy Housewright inspected 0 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 105 pay stations.
Joe Myers inspected 306 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 28 pay stations.

Billy Housewright and the Director participated in three public hearings which were held in United Inter-Mountain Telephone Company's franchised area in Tennessee.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

July 5, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of June 186 East Division 83 Middle Division 61 West Division 42
Total number of complaints received since January 1, 1984 - 1,080.
Complaints received from January 1 to July 1, 1983 - 948.

Total number of test calls made in June 1,127.
Total number of pay stations inspected in June 966 and 12 were out of order. Total number of special investigations in June 33.

Total number of complaints closed during the month of June 194 and 54 complaints of the 186 complaints received during June were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	1	0	0
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	0	0	0
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	1	0	1
ALLTEL Tennessee, Inc.	8	6	0
Ardmore Telephone Company	0	0	0
AT&T Communications	4	0	0
Claiborne Telephone Company	1	0	0
Concord Telephone Company	1	0	0
Crockett Telephone Company	0	0	0
Englewood Telephone Company	0	0	0
General Telephone Company	1	1	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	0	0	0
Peoples Telephone Company	0	0	0
South Central Bell	140	67	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	2	1	0
United Inter-Mountain Tel. Co.	19	7	8
United Telephone Company	1	0	1
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	3	0	3
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	4	1	3
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of June for South Central Bell

New Phone Installation	15	0	0
Billing	6	6	0
Deposit	7	7	0
Multi-party	0	0	0
Harassment or Obscene	4	4	0

Types of Complaints Received During the Month of June for South Central Bell (Con't)

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Out of Order	19	3	0
Miscellaneous	89	47	0

Types of Complaints Received During the Month of June for United Inter-Mt. Tel. Co.

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
New Phone Installation	2	0	0
Billing	0	0	0
Deposit	1	1	0
Multi-party	0	0	0
Harassment or Obscene	0	0	0
Out of Order	2	0	1
Miscellaneous	14	6	7

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	20	75		4
MARILYN DIGGONS	14	75	22	3
BILLY HOUSEWRIGHT	23	25		1
JIM LESTER	22	67		11
GLADYS LINTON	8	39		1
JOE MYERS	30	53	1	4
EDDIE ROBERSON	15	44		5
BOB STANLEY	10	29		0
JAMES WATTS	44	109		2
CENTRAL OFFICE				2

TEST CALLS:

Ray Coats made 280 test calls.
Marilyn Diggons made 119 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 210 test calls.
Joe Myers made 210 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 308 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 340 pay stations.
Marilyn Diggons inspected 266 pay stations.
Billy Housewright inspected 0 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 105 pay stations.
Joe Myers inspected 255 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

August 1, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of
July 191 East Division 73 Middle Division 73 West Division 45
Total number of complaints received since January 1, 1984 - 1,271.
Complaints received from January 1 to August 1, 1983 - 1,115.

Total number of test calls made in July 1,230.
Total number of pay stations inspected in July 679 and 7 were out of
order. Total number of special investigations in July 33.

Total number of complaints closed during the month of July 197 and 47
complaints of the 191 complaints received during July were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	6	4	1
GAS COMPANIES:			
Chattanooga Gas Company	1	0	1

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	1	0	1
Tennessee-Virginia Energy Corporation	1	0	1
United Cities Gas Company	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	1	1	0
Ardmore Telephone Company	0	0	0
AT&T Communications	2	1	0
Claiborne Telephone Company	3	1	1
Concord Telephone Company	0	0	0
Crockett Telephone Company	1	1	0
Englewood Telephone Company	0	0	0
General Telephone Company	4	3	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	1	1	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	0	0	0
Peoples Telephone Company	0	0	0
South Central Bell	146	68	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	8	4	1
United Inter-Mountain Tel. Co.	12	4	6
United Telephone Company	0	0	0
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	1	1	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	3	1	2
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of July for South Central Bell

New Phone Installation --------------	24	0	0
Billing ----------------------------	4	4	0
Deposit ----------------------------	11	11	0
Multi-party ------------------------	0	0	0
Harassment or Obscene --------------	5	5	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of July for South Central Bell (Con't)			
Out of Order ----------------------	27	6	0
Miscellaneous ---------------------	75	42	0
Types of Complaints Received During the Month of July for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	1	0	1
Billing ---------------------------	2	0	2
Deposit ---------------------------	0	0	0
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	0	0	0
Out of Order ----------------------	2	1	1
Miscellaneous ---------------------	7	3	2

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	28	31		3
MARILYN DIGGONS	10	64	12	1
BILLY HOUSEWRIGHT	20	34		7
JIM LESTER	30	52		12
GLADYS LINTON	10	46		
JOE MYERS	24	62		1
EDDIE ROBERSON	22	40		6
BOB STANLEY	16	27		
JAMES WATTS	30	100		3
CENTRAL OFFICE	1			

TEST CALLS:

Ray Coats made 216 test calls.
Marilyn Diggons made 280 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 210 test calls.
Joe Myers made 238 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 286 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 203 pay stations.
Marilyn Diggons inspected 136 pay stations.
Billy Housewright inspected 0 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 105 pay stations.
Joe Myers inspected 235 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

September 4, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of August 172 East Division 79 Middle Division 62 West Division 31
Total number of complaints received since January 1, 1984 - 1,443.
Complaints received from January 1 to September 1, 1983 - 1,341.

Total number of test calls made in August 1,222.
Total number of pay stations inspected in August 796 and 16 were out of order. Total number of special investigations in August 26.

Total number of complaints closed during the month of August 162 and 25 complaints of the 172 complaints received during August were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	2	1	0
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	5	4	1
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	0	0	0
TELEPHONE COMPANIES:			
Adamsville Telephone Company	0	0	0
ALLTEL Tennessee, Inc.	2	1	0
Ardmore Telephone Company	0	0	0
AT&T Communications	8	0	5
Claiborne Telephone Company	2	1	0
Concord Telephone Company	0	0	0
Crockett Telephone Company	3	1	2
Englewood Telephone Company	0	0	0
General Telephone Company	4	4	0
Humphreys County Telephone Co.	0	0	0
Loretto Telephone Company	0	0	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	4	3	1
Peoples Telephone Company	0	0	0
South Central Bell	105	69	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	0	0	0
Tennessee Telephone Company	9	1	5
United Inter-Mountain Tel. Co.	20	6	9
United Telephone Company	1	0	0
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	7	3	4
Tennessee Water Service, Inc.	0	0	0
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of August for South Central Bell

New Phone Installation --------------	9	0	0
Billing ----------------------------	2	2	0
Deposit ----------------------------	12	12	0
Multi-party ------------------------	0	0	0
Harassment or Obscene --------------	1	1	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of August for South Central Bell (Con't)			
Out of Order	10	6	0
Miscellaneous	71	48	0
Types of Complaints Received During the Month of August for United Inter-Mt. Tel. Co.			
New Phone Installation	2	0	1
Billing	1	0	1
Deposit	0	0	0
Multi-party	2	0	1
Harassment or Obscene	0	0	0
Out of Order	0	0	0
Miscellaneous	15	6	6

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	16	51		4
MARILYN DIGGONS	9	38		1
BILLY HOUSEWRIGHT	22	23		2
JIM LESTER	36	56		7
GLADYS LINTON	8	39		
JOE MYERS	20	46		6
EDDIE ROBERSON	20	36		2
BOB STANLEY	5	36		
JAMES WATTS	36	98		4
CENTRAL OFFICE				

TEST CALLS:

Ray Coats made 224 test calls.
Marilyn Diggons made 196 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 200 test calls.
Joe Myers made 280 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 322 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 272 pay stations.
Marilyn Diggons inspected 85 pay stations.
Billy Housewright inspected 0 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 95 pay stations.
Joe Myers inspected 340 pay stations.
Eddie Roberson inspected 4 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

Chairman Keith Bissell, Paul Allen, Ray Coats, Jim Lester, Don McGehee, Brenda Stiles, Susan Thomas, Ted Tingley and Jim Watts participated in the public hearings which were held in Tennessee Telephone Company's franchised area in Tennessee.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

TENNESSEE PUBLIC SERVICE COMMISSION
CORDELL HULL BUILDING
NASHVILLE, TENNESSEE 37219

KEITH BISSELL, CHAIRMAN
JANE ESKIND, COMMISSIONER
FRANK COCHRAN, COMMISSIONER

BOB DAVIS, EXECUTIVE DIRECTOR
HENRY M. WALKER, GENERAL COUNSEL

October 2, 1984

TO: Chairman Keith Bissell
Commissioner Jane Eskind
Commissioner Frank Cochran
Bob Davis, Executive Director

FROM: Don McGehee, Director
Utility Service Division

SUBJECT: UTILITY SERVICE DIVISION'S MONTHLY REPORT

Total number of complaints received and investigated during the month of September 178 East Division 82 Middle Division 62 West Division 34
Total number of complaints received since January 1, 1984 - 1,620.
Complaints received from January 1 to October 1, 1983 - 1,566.

Total number of test calls made in September 1,049.
Total number of pay stations inspected in September 622 and 4 were out of order. Total number of special investigations in September 30.

Total number of complaints closed during the month of September 161 and 24 complaints of the 178 complaints received during September were closed.

NUMBER OF COMPLAINTS RECEIVED AGAINST EACH UTILITY COMPANY

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
ELECTRIC COMPANY:			
Kingsport Power Company	0	0	0
GAS COMPANIES:			
Chattanooga Gas Company	0	0	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
GAS COMPANIES (CON'T)			
Hardin County Gas Company	0	0	0
Hartsville Gas Company	0	0	0
Nashville Gas Company	1	1	0
Tennessee-Virginia Energy Corporation	0	0	0
United Cities Gas Company	0	0	0
MOBILPHONE COMPANIES:			
Airsignal International, Inc.	0	0	0
Communications Electronics	0	0	0
Jackson Mobilphone Company, Inc.	0	0	0
Lebanon Mobilphone Company, Inc.	0	0	0
Mahaffey Message Relay, Inc.	0	0	0
Page-A-Phone	0	0	0
Pat's Mobilphone, Inc.	0	0	0
Prospect Communications	0	0	0
Radio Call Company	0	0	0
Southeast Mobilphone, Inc.	0	0	0
Telpage of Nashville, Inc.	0	0	0
Telpage of Tennessee, Inc.	0	0	0
TELEGRAPH COMPANY:			
Western Union Telegraph Company	1	0	1
TELEPHONE COMPANIES:			
Adamsville Telephone Company	1	1	0
ALLTEL Tennessee, Inc.	7	4	0
Ardmore Telephone Company	1	0	1
AT&T Communications	2	2	0
Claiborne Telephone Company	3	0	1
Concord Telephone Company	0	0	0
Crockett Telephone Company	1	1	0
Englewood Telephone Company	0	0	0
General Telephone Company	4	2	0
Humphreys County Telephone Co.	1	0	1
Loretto Telephone Company	2	2	0
Millington Telephone Company	0	0	0
Ooltewah-Collegedale Telephone Co.	3	2	1
Peoples Telephone Company	0	0	0
South Central Bell	114	71	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
TELEPHONE COMPANIES (CON'T)			
Tellico Telephone Company	1	0	1
Tennessee Telephone Company	13	4	0
United Inter-Mountain Tel. Co.	13	6	3
United Telephone Company	1	0	0
West Tennessee Telephone Co.	0	0	0
WATER COMPANIES:			
Cartwright Creek Utility Co.	0	0	0
Charles R. Chase Water Works	0	0	0
Freeman Water Company	0	0	0
Friendship Water Company	0	0	0
Henry County Water Company	0	0	0
J E T Waterworks, Inc.	0	0	0
Lakeland Utility Company	0	0	0
Roan Mountain Water Company	0	0	0
Royal Oaks Service Company	0	0	0
Sequatchie Water Works	0	0	0
Tennessee-American Water Co.	9	0	0
Tennessee Water Service, Inc.	0	0	9
West Tennessee Water Company	0	0	0
SEWERAGE COMPANIES:			
Lynnwood Utility Company	0	0	0
Moore's Lane Sewerage Company	0	0	0
Stonebrook Sewerage System	0	0	0

Types of Complaints Received During the Month of September for South Central Bell

New Phone Installation --------------	12	0	0
Billing -----------------------------	3	3	0
Deposit -----------------------------	11	11	0
Multi-party -------------------------	0	0	0
Harassment or Obscene ---------------	2	2	0

	NUMBER OF COMPLAINTS:	*NON-CHARGEABLE:	PENDING:
Types of Complaints Received During the Month of September for South Central Bell (Con't)			
Out of Order ----------------------	4	0	0
Miscellaneous ---------------------	82	55	0
Types of Complaints Received During the Month of September for United Inter-Mt. Tel. Co.			
New Phone Installation ------------	1	0	0
Billing ---------------------------	0	0	0
Deposit ---------------------------	0	0	0
Multi-party -----------------------	0	0	0
Harassment or Obscene -------------	0	0	0
Out of Order ----------------------	2	0	0
Miscellaneous ---------------------	10	6	3

Total number of complaints investigated by:		Follow-up Investigations:	Consumer Survey Reports:	Special Investigations:
RAY COATS	27	46		4
MARILYN DIGGONS	9	32	22	1
BILLY HOUSEWRIGHT	15	40		3
JIM LESTER	28	52		9
GLADYS LINTON	2	30		1
JOE MYERS	14	50	2	2
EDDIE ROBERSON	33	36		1
BOB STANLEY	16	25		1
JAMES WATTS	34	67		5
CENTRAL OFFICE				3

TEST CALLS:

Ray Coats made 89 test calls.
Marilyn Diggons made 232 test calls.
Billy Housewright made 0 test calls.
Jim Lester made 0 test calls.
Gladys Linton made 200 test calls.
Joe Myers made 240 test calls.
Eddie Roberson made 0 test calls.
Bob Stanley made 289 test calls.
James Watts made 0 test calls.

PAY STATIONS:

Ray Coats inspected 105 pay stations.
Marilyn Diggons inspected 120 pay stations.
Billy Housewright inspected 0 pay stations.
Jim Lester inspected 0 pay stations.
Gladys Linton inspected 98 pay stations.
Joe Myers inspected 299 pay stations.
Eddie Roberson inspected 0 pay stations.
Bob Stanley inspected 0 pay stations.
James Watts inspected 0 pay stations.

*Non-chargeable complaint:

After the investigation of a complaint by the Utility Service Division and its decision that the action and/or position taken by the utility company was in accordance with its tariff and/or was reasonable.

DMc/ap

APPENDIX E.—ADDITIONAL INFORMATION SUBMITTED BY THE NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION

August 31, 1984

FOR YOUR INFORMATION:

Enclosed is a copy of comments filed yesterday by NATA, asking the FCC to prohibit AT&T Information Systems (ATT-IS) from assessing termination charges altogether, or at least to ban company from imposing fees in discriminatory matter. Filing consolidates arguments NATA has made in various proceedings throughout year. Termination charges are imposed on users who break long-term equipment contracts.

Among the highlights:

- Users should not be bound by pre-divestiture contracts for customer premises equipment (CPE) entered into with the Bell Operating Companies (BOCs) now that such CPE has been deregulated and transferred to ATT-IS.

- "ATT-IS' enforcement of the termination charges, or even its threat of enforcement of the termination charges, locks out CPE competitors from what the Commission described as embedded CPE with a value 'in excess of $10 billion.' The threat of termination charges forces the customer to continue to lease CPE that the customer formerly leased from the monopoly CPE provider. The threat of termination charges solidifies ATT-IS' control over the embedded base and merely transfers the monopoly control over this CPE from the BOCs to ATT-IS."

- Pleading cites several instances, with documentation, of where AT&T has imposed termination charges in a discriminatory manner -- trying to force users who want to purchase equipment from independent vendors to pay the charges, but waiving the fees for customers who instead trade up to new AT&T equipment. For instance, one letter informs user that termination charge for removing in-place Bell System equipment would be $14,611, but only $6,867 if customer upgrades to newer AT&T product. Such discriminatory practices "harm ratepayers and competition and violate Computer II," NATA says.

For further information, please contact:

Adam Kernan-Schloss
202/833-3800

Before The

FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

In the Matter of Procedures for Implementing the Detariffing of Customer Premises Equipment and Enhanced Services (Second Computer Inquiry)	)	CC Docket No. 81-893

SUPPLEMENTAL COMMENTS OF THE NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION

ALBERT H. KRAMER
BRUCE P. SAYPOL
DENISE BONN
Wood, Lucksinger & Epstein
2000 M Street, N.W.
Suite 500
Washington, D.C. 20036
Telephone: (202) 223-6611

Attorneys for the
North American Telecommunications
Association.

Dated: August 30, 1984

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Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Procedures for Implementing the
Detariffing of Customer Premises
Equipment and Enhanced Services
(Second Computer Inquiry)

CC Docket No. 81-893

SUPPLEMENTAL COMMENTS OF THE NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION

On May 24, 1984, Jack Smith, Chief, Common Carrier Bureau, wrote to AT&T Information Systems ("AT&T-IS") concerning AT&T-IS' practices regarding termination charges for fixed-term terminal equipment services. AT&T-IS sent its response to the Common Carrier Bureau in a letter dated June 19, 1984. The North American Telecommunications Association ("NATA") submits these Supplemental Comments to the issues raised in this correspondence.

In its letter, AT&T-IS urges the Commission to "reaffirm promptly and directly . . . the validity of fixed-term agreements . . . ." AT&T-IS letter at 1. NATA submits that this Commission has never recognized the validity of so-called "fixed-term agreements," which AT&T-IS alleges were transferred from the Bell Operating Companies (BOCs) to AT&T-IS. Further, for the reasons set forth below, this Commission cannot, and should not, declare or affirm the validity of these so-called "fixed-term agreements." Whether a customer is bound by the "fixed term agreements" is a matter of state contract law, outside the jurisdiction of this Commission. However, whether AT&T-IS' enforcement of the termination charges is consistent with the Communications Act of 1934, as amended, 47 U.S.C. §151 et seq. (1976) (hereafter "Communications Act" or "Act"), and whether AT&T-IS' discriminatory enforcement of the termination charges against customers who purchase non-AT&T-IS CPE violates the Communications Act are issues which are squarely within this Commission's jurisdiction. The Commission should declare that AT&T-IS' enforcement of the termination charges is contrary to the Communications Act and that AT&T-IS' discriminatory application of the termination charges violates the Act.

Preliminarily, it must be stated that NATA vigorously disputes the notion that either this Commission or the Federal District Court have ever transferred the so-called "fixed-term agreements" to AT&T-IS or recognized their validity after December 31, 1983. It is true that with divestiture by AT&T of the BOCs at the end of 1983, the equipment comprising the embedded customer premises equipment ("CPE") base was transferred to AT&T-IS, but no where in any of the court or Commission decisions cited by AT&T-IS is there any indication that the alleged "contract" or "fixed- term agreement" under which some of the BOC embedded CPE base was being provided by the BOCs was assigned to AT&T-IS. In support of its position, AT&T-IS cites the Modification of Final Judgment ("MFJ") entered by the United States District Court for the District of Columbia in United States v. Western Electric Company, Inc. 552 F.Supp. 131 (D.D.C. 1982), aff'd sub nom. Maryland v. United States, 103 S.Ct. 1240 (1983).

However, no specific language is quoted by AT&T-IS and no specific page citation is given for the proposition that the so-called "fixed-term agreements" were assigned to AT&T-IS. The same is true of this Commission's decisions. The F.C.C. did detariff embedded CPE and it did authorize transfer of that equipment to AT&T-IS. In re Procedures for Implementing the Detariffing of Customer Premises Equipment and Enhanced Services (Second Computer Inquiry), F.C.C. 83-551, CC Docket 81-893, Report and Order (released September 15, 1983) (hereafter "Implementation Order"). However, once again, no specific language is cited, and no specific page of this Commission's opinion is given for the proposition that "fixed-term agreements" were assigned to AT&T-IS.

Moreover, to claim, as does AT&T-IS, that the so-called "fixed-term agreements" were transferred by "operation of law" compounds AT&T-IS' error. Even assuming the alleged contracts or "fixed-term agreements" had been transferred, to state that this was done by operation of law ignores the fact that the MFJ was the outgrowth of a voluntary agreement entered into between AT&T (on the BOCs' behalf) and the U.S. Department of Justice, settling a pending antitrust suit against the entire Bell system. In other words, the Bell System, as the quid pro quo of the Department of Justice's dismissal of the antitrust suit, agreed to cease providing embedded CPE as of the end of 1983. And, AT&T-IS' voluntary assumption of its duties under the "fixed-term agreements" was a pledge undertaken by AT&T-IS and sought by AT&T-IS in return for the Commission's detariffing of this CPE.

AT&T-IS never stated that it intended for the customer to be bound; all it stated was that it would abide by the terms of these agreements. For AT&T-IS to imply at this time that the transfer of the embedded base was foisted upon them by "operation of law" is, to put it mildly, disingenuous.

In any event, for the reasons set forth below, this Commission cannot, and should not, pass upon the validity of "fixed-term agreements" for CPE, or declare that alleged "fixed-term agreement" customers of AT&T-IS are obligated to pay termination liability charges in accordance with state tariffs which no longer exist, and which only governed the provision of CPE service by the BOCs.

I. THIS COMMISSION IS WITHOUT JURISDICTION OR AUTHORITY TO DETERMINE THE LIABILITY OF AT&T'S CUSTOMERS UNDER SO-CALLED FIXED-TERM AGREEMENTS FOR EMBEDDED CPE ACQUIRED BY AT&T FROM THE BOCS

The Federal Communications Commission was created by Congress when it enacted the Communications Act. The Commission's authority is derived solely from, and its power is strictly limited by, the provisions of that Act. Section 1 thereof states, "[f]or the purpose of regulating interstate and foreign commerce . . ., there is hereby created a commission to be known as the Federal Communications Commission, which shall be constituted as hereinafter provided, and which shall execute and enforce the provisions of this chapter." 47 U.S.C. §151. Section 2 states, "The provisions of this Act shall apply to all interstate and foreign communications by wire . . .." 47 U.S.C.

§152. "Wire communication or communication by wire" is defined in Section 3(a), 47 U.S.C. §153(a), as:

> the transmission of writing, signs, signals, pictures, and sounds of all kinds by aid of wire, cable, or other like connection between the points of origin and reception of such transmission, including all instrumentalities, facilities, apparatus, and services (among other things, the receipt, forwarding, and delivery of communications) incidental to such transmission.

It is clear from this definition that a non-carrier customer who receives telephone service is not engaged in transmission. The Commission has no jurisdiction over the customer.

This does not mean, however, that at times the Commission does not resolve disputes between common carriers and their customers. For example, Sections 207 and 208 of the Act permit a person to file a complaint against a common carrier for an act or omission of _the carrier_ in contravention of the Act, and to recover damages for such act or omission. There are, however, no corresponding sections for a common carrier to file a complaint against a customer, because the Commission has no jurisdiction over the customer.

In addition to the fact that the Commission has no _in personam_ jurisdiction over the customer, the Commission has no subject matter jurisdiction over the so-called "fixed term agreements." All of the Com-Key, Horizon and Dimension PBX so-called "fixed term agreements" as to which AT&T-IS seeks this Commission's sanction are allegedly based on state regulatory agency (rather than F.C.C.) tariffs, all of which ceased to exist at the end of 1983. When AT&T-IS urges this Commission to recognize or reaffirm the validity of so-called "fixed-term agreements," it is seeking F.C.C. determination of a legal issue which, of necessity, requires the application of principles of state contract law or equity. Such adjudication is not within the lawful province of this Commission. The F.C.C. neither approved nor authorized the tariffs which allegedly form the basis for AT&T-IS' so-called "fixed-term agreements," and it has no authority over AT&T-IS' customers. The question of whether a customer will be liable for termination charges if the customer ceases taking service before the expiration of a fixed-term, is not a question which this Commission can decide. This Commission cannot determine that a customer is bound by any "fixed-term" terminal equipment service agreement, or that such agreements ever were, or presently are, valid for all purposes. This Commission simply lacks the authority to adjudicate the rights and obligations of a customer utilizing a service never tariffed by the F.C.C., or to resolve questions of state contract law or equity. It cannot, therefore, affirm the validity of these alleged agreements as to AT&T-IS' customers or determine that AT&T may collect termination charges.

II. UNDER FUNDAMENTAL PRINCIPLES OF CONTRACT AND EQUITY, AT&T-IS CANNOT ENFORCE THE SO-CALLED FIXED-TERM AGREEMENTS AGAINST CUSTOMERS WHO ENTERED INTO THESE AGREEMENTS WITH THE BOCS

In addition to the fact that the Commission has no authority to determine a customer's obligations under the so-called "fixed-term agreements," fundamental principles of equity and contract hold that the customer is not bound by these agreements.

First, unless the customer actually entered into an arrangement directly with AT&T-IS or its 1983 unregulated predecessor, American Bell, there is no privity whatsoever between the customer and AT&T-IS. Referring to F.C.C. Docket 81-893, AT&T-IS in its letter of June 19, 1984 asserts (at 2) "AT&T confirmed . . . that AT&T-IS would honor the terms of the fixed-term contracts." AT&T explicitly pledged to this Commission that it would abide by the terms of fixed-term or fixed payment contracts as a condition of deregulating the embedded CPE base upon the transfer of that base to AT&T. AT&T did not condition its representations to this Commission on the agreement by customers to be bound. Neither the F.C.C. nor AT&T can speak for the customer. By pledging to live up to the terms contained in these agreements if the Commission deregulated embedded CPE, AT&T could not, and did not, thereby bind the customer who was otherwise no longer bound because of changed regulatory circumstances and/or changes in the relation of the parties to the alleged contract that rendered the alleged contract void.

AT&T-IS may consider a customer's pre-1984 agreement with a BOC binding on AT&T-IS insofar as its obligation to provide service is concerned; but that does not mean that the customer is obligated to continue accepting service from an entity with which the customer never bargained or contracted.[1/] This Commission, responding to AT&T's offer, should require AT&T-IS to honor the

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1/ The BOCs' provision of billing for the embedded CPE transferred to AT&T-IS has served to confuse the customer. The majority of customers, including those formerly subject to fixed-term agreements, continue to pay the BOC for equipment which has been transferred to AT&T-IS. Such continued dealing with the BOC -- the entity with which the customer contracted -- cannot constitute an acceptance to deal with a new entity -- AT&T-IS -- with which the customer neither contracted nor dealt.

Some customers who have not paid the termination charges allegedly owed for this CPE have received collection notices from the BOCs. Rather than receiving a notice from the BOC that non-payment of telephone equipment charges will not result in termination of local service, customers continue to receive general notifications that non-payment of billed charges will result in termination of service. While the Commission has prohibited the BOCs from terminating service for non-payment of CPE charges, the threat of termination of service should equally be prohibited. The Commission should require the BOCs to include a bill insert which explains that service will not be terminated for non-payment of telephone equipment charges (due the BOC or AT&T-IS) and if CPE charges are the only charges outstanding, the customer should so notify the BOC and ignore any notification that service will be disconnected for such non-payment. If the BOCs will not reprogram their computers to prevent the issuance of notices which threaten discontinuance of service for non-payment of charges which may be due for CPE, they must counteract the effect of these notices which do not accurately portray the Commission's orders.

Rather than questioning the BOC about a notice which the customer does not know is inaccurate, some customers pay the disputed CPE charge to prevent local service cut-off. An example of a bill, correspondence to the BOC, a BOC termination notice to a customer and the customer's payment to avoid termination of service is attached as Exhibit A. These documents reveal that the customer informed the BOC in writing that the amount outstanding was for AT&T-IS CPE, but that the BOC issued a notice threatening termination of service if the CPE charge were not paid. Subsequent documents show that the customer paid the disputed CPE charge solely to avoid loss of telephone service. Clearly, the Commission should take action to protect the public interest and the integrity of its own declarations by requiring the BOCs to include the bill insert described above which will accurately inform customers that their service will not be terminated for non-payment of CPE charges.

outstanding fixed-term contracts, but it cannot require customers to honor commitments that were never entered into with AT&T-IS.

Second, if a customer willingly entered into an agreement to subscribe to fixed-term equipment service with a BOC before the end of 1983, the customer contracted for a regulated service subject to the terms and conditions of tariffs on file with a state regulatory agency. In so doing, the customer had the protection offered by the state regulatory agency, and "end to end" service, on a regulated basis, from a public utility company. The embedded CPE provided by AT&T-IS is no longer a regulated service provided by a public utility. Since regulated terminal equipment service is no longer available, the customer's freedom to choose a new system from among many competitive unregulated vendors, including AT&T-IS, should not be inhibited by the Commission's forced imposition on the customer of an alleged contract with a different entity, for a different service, entered into under entirely different circumstances. To sanction AT&T-IS' enforcement of a "contract" against a customer with which AT&T-IS never contracted, violates all standard principles of contract law.

Finally, to allow AT&T-IS to enforce "fixed-term CPE contracts" would jeopardize the competitive market which the Commission is seeking to foster. If AT&T-IS is allowed to collect early termination charges allegedly due on contracts entered into by a customer with a BOC, the competitive terminal equipment market nurtured by Computer II[2/] would be disrupted, and its validity seriously jeopardized. A substantial portion of the entire embedded base of Bell System terminal equipment customers would be locked into AT&T-IS for the foreseeable future, and competing suppliers would be correspondingly locked out of a very significant market. This result would be contrary to the Commission's intentions in the Implementation Order to detariff CPE in a manner that does not hinder CPE competition. See infra at 11-14.

III. THE COMMISSION HAS AUTHORITY TO DECLARE THAT AT&T-IS' ENFORCEMENT OF THE TERMINATION CHARGES VIOLATES THE COMMUNICATIONS ACT AND ORDERS ISSUED THEREUNDER

While the Commission has no authority to determine the validity or invalidity of the "fixed-term agreements" as to third parties, the Commission does have authority to declare that AT&T-IS' enforcement of the termination charges violates the Communications Act of 1934 and Commission orders issued pursuant to the Act. The Commission's ancillary jurisdiction over the carrier provision of CPE by now should be unquestioned. As the

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[2/] Amendment of Section 64.702 of the Commission's Rules and Regulations (Second Computer Inquiry), 77 F.C.C.2d 384 (1980) (Final Decision), on reconsideration, 84 F.C.C.2d 50 (1980) (Reconsideration), on further reconsideration, 88 F.C.C.2d 512 (1981) (Further Reconsideration), aff'd sub nom. Computer and Communications Industry Association v. Federal Communications Commission, 693 F.2d 198 (D.C. Cir. 1982), cert. denied sub nom. Louisiana Public Service Commission v. Federal Communications Commission, 103 S.Ct. 2109 (1983).

Commission pointed out in the Implementation Order, the Commission has "authority over a carrier's provision of untariffed CPE to the extent necessary to protect the public interest" pursuant to Section 2(a) of the Act, 47 U.S.C. §152(a). Implementation Order at ¶24, also citing United States v. Southwestern Cable Co., 392 U.S. 157, 172 (1968). Thus, it is clear that the Commission has jurisdiction over AT&T-IS' pricing practices regarding embedded CPE formerly subject to fixed-term agreements with the BOCs, and particularly regarding the termination charge portion of such pricing practices.

AT&T-IS' enforcement of the termination charges for the discontinuance of service with embedded CPE which was formerly subject to fixed-term agreements with the BOCs violates the Commission's promotion of a competitive CPE marketplace fostered in Computer II. The Commission emphasized its continuing commitment to promote competition in CPE in the Implementation Order. Implementation Order at ¶2. Regarding its task in the Implementation Order, the Commission stated:

> We now face the very different task of ensuring that elimination of the tariffing constraints over billions of dollars of AT&T's embedded equipment be accomplished in a manner which will not retard the competition which has flourished during the years of the bifurcated regulation of CPE under Second Computer Inquiry. We repeat: 'AT&T has in excess of $10 billion of CPE currently subject to public utility regulation. We could not authorize such a large transfer to the separate subsidiary without first examining the timing, extent and terms of the transfer and its effect upon competition in the equipment marketplace.'

Implementation Order at ¶33 citing Computer II Further Reconsideration Order, 88 F.C.C.2d at 524. The Commission specifically recognized its obligation to prevent the transfer of the embedded base to AT&T-IS from hindering the existing competition in the CPE marketplace. However, AT&T-IS' enforcement of the termination charges, or even its threat of enforcement of the termination charges, locks out CPE competitors from what the Commission described as embedded CPE with a value "in excess of $10 billion." Id. The threat of termination charges forces the customer to continue to lease CPE that the customer formerly leased from the monopoly CPE provider. The threat of termination charges solidifies AT&T-IS' control over the embedded base and merely transfers the monopoly control over this CPE from the BOCs to AT&T-IS. This was not the Commission's intention when CPE was deregulated in Computer II and the Commission later imposed conditions upon the transfer of the embedded base from the BOCs to AT&T-IS. In order to protect ratepayers' and CPE competition, the Commission's conditions included a two year lease stability program, the establishment of a sales program for all equipment and the limitation of sales prices to net book value plus transaction costs.

AT&T's assessment of termination charges is inconsistent with the conditions imposed in the Implementation Order and violates the Communications Act. The Commission stated that it was imposing conditions upon AT&T-IS' provision of embedded CPE to enable ratepayers to capture the gain on assets removed from regulated service and to ensure that CPE would be available at reasonable prices. The assessment of termination charges does not offer ratepayers an opportunity to capture gains in the value of assets. The collection of termination charges by AT&T-IS benefits AT&T-IS alone, to the detriment of CPE consumers and competition.

Nor does the assessment of termination charges ensure that CPE will be available at reasonable prices. The Commission found in Computer II that CPE would be available at reasonable prices if there were competition in the provision of CPE. As described above, the threat of termination charges does not promote competition but inhibits competition and reinforces AT&T-IS' control over the embedded base. As AT&T retains control of more of the embedded base by locking customers into long term leases, AT&T will increase its market power and reduce the opportunities for CPE competition. The net effect will be reduced competition and a lesser likelihood that CPE will be available at reasonable prices. Serving neither to recoup the gain on assets removed from regulated service for ratepayers nor to ensure that CPE will be available at reasonable prices, AT&T-IS' assessment of termination charges is not consistent with the Commission's purposes in the Implementation Order.

Moreover, AT&T has not established that the imposition of termination charges complies with the sales plan in the Implementation Order. AT&T has not established that there is any relationship between net book value and the recovery of termination charges. The rates of the fixed-term agreements including the termination charges were set when the CPE was subject to state regulation and were contained in state tariffs. These rates were established assuming normalized depreciation of the CPE as a regulated asset and normalized investment tax credits on the regulated books of the BOCs. (In fact, on the unregulated books, both the BOCs and their parent AT&T took advantage of accelerated depreciation and investment tax credits and the cash flows generated therefrom.) In the Implementation Order, the Commission allowed AT&T an approximately $2.8 billion offset against the embedded CPE to reflect the value on the books of the BOCs of tax reserves maintained for normalizing depreciation and unamortized investment tax credits when the CPE was subject to state regulation. These accounting adjustments reduced the net book value of the CPE transferred to AT&T-IS. Since the total net book value of the CPE has been reduced, it is clear that AT&T-IS' collection of the entire termination charge exceeds net book value and is therefore in conflict with the sales program in the Implementation Order. At a minimum, the Commission must require the termination charges to be reduced by an amount that reflects the proportionate relationship of the reserves for accelerated depreciation and unamortized investment tax credits to the total value of CPE under fixed term agreements.[3/]

Another reason why the termination charges are unreasonable is that they presume that the CPE is not reusable, or at the least, has no salvage value. However, the development of an

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[3/] Since only AT&T has the data to perform this calculation, it should be required to disclose the necessary information.

after-market for AT&T equipment (the resale of used AT&T equipment similar to the resale of cars in the used car market) contradicts this presumption. We have attached as Exhibit B (1) an announcement by AT&T-IS of their agreement with CMI Corporation to have CMI assist AT&T-IS' entry into the CPE after-market, and (2) a letter from CMI to CPE vendors to interest them in this undertaking (the identity of the CPE vendor has been deleted to protect its confidentiality). Thus, even had their not been a reduction in the net book value of the CPE, it would have been inappropriate for AT&T-IS to recover termination charges which have not been reduced by the resale or salvage value of the equipment.

We conclude that AT&T-IS' collection of termination charges inhibits CPE competition, and does not capture the gain on assets or otherwise benefit ratepayers. The termination charges exceed the net book value of the CPE and the assessment of these charges over-recovers for the CPE because the amount assessed presumes a zero salvage value. The collection of these charges is unrelated to the recovery of costs and thus is unreasonable and violates the Communications Act. The Commission should prohibit AT&T-IS from assessing termination charges because they conflict with the Implementation Order and violate the Act.

IV. THE COMMISSION HAS AUTHORITY TO DECLARE THAT AT&T-IS' DISCRIMINATORY ENFORCEMENT OF THE TERMINATION CHARGES VIOLATES THE COMMUNICATIONS ACT AND ORDERS ISSUED PURSUANT TO THE ACT

In its letter to the Commission, AT&T-IS implies that it waives all or a part of the termination liability if a customer purchases AT&T-IS CPE, while AT&T-IS contends that the full termination charge is payable if a customer purchases CPE from any other vendor. AT&T-IS letter at 3. AT&T-IS has confirmed this policy in writing to customers across the country. Examples of some of these letters are attached as Exhibit C. The identities of the customers have been deleted to protect their privacy.

A review of these letters shows that the difference in termination charge assessed for a purchase of AT&T-IS CPE as compared to another vendor's CPE is significant. This difference in charge has the effect of locking many customers into AT&T-IS CPE purchases, enabling AT&T-IS to retain control of the vast embedded base AT&T obtained as a monopolist. Such practices by AT&T which enable it to discriminatorily retain control over the embedded base harm ratepayers and competition and violate Computer II and the Implementation Order.

The Commission's action in Computer II deregulating CPE, and the Commission's subsequent action in the Implementation Order transferring this CPE from the BOCs to AT&T-IS, could not provide AT&T-IS with any rights over this CPE greater than that formerly obtained by the BOCs. When the CPE was subject to regulation, the BOCs could not selectively waive all or a part of the termination charges to some customers but not for other customers. This would have been an "unjust or unreasonable discrimination in charges . . . for or in connection with like communication service" or the giving of an "unreasonable preference" in violation of Section 202(a) of the Act. 47 U.S.C. §202(a). Similarly, now that the embedded CPE has been transferred to AT&T-IS,

AT&T-IS may not selectively waive all or a portion of the termination charges for some customers but not for other customers. Even assuming arguendo that AT&T-IS received a valid contractual assignment (a proposition we dispute), AT&T-IS cannot have received a right greater than the right of the assignor. If the assignor BOC could not have discriminated in assessing termination charges, neither can AT&T-IS.

AT&T-IS attempts to justify its selective enforcement of termination liability by characterizing it as a typical competitive practice. AT&T-IS letter at 3. However, AT&T-IS is not a typical CPE vendor. No other vendor inherited a $10 billion CPE base. The Commission recognized this fact in establishing appropriate transitional conditions for the sale and lease of this CPE.

Nor can AT&T justify its discriminatory application of the termination charges by relying upon the Trans-Lux decision. In re Trans-Lux Corporation v. Global Communications, No. E-83-15, Mimeo No. 2877 (March 14, 1984). Trans-Lux is not a decision concerning the embedded CPE base transferred to AT&T-IS, but deals with telex terminal equipment provided by international record carriers. Telex terminal equipment was detariffed on August 1, 1981 pursuant to Commission order. At the present time, such telex equipment is not subject to the pricing and leasing safeguards imposed by the Commission upon AT&T-IS' provision of embedded base CPE. Trans-Lux does not serve as good authority for AT&T-IS' contention, AT&T-IS letter at 4, that it may price embedded CPE in any manner to promote its sale and that the Commission should not interfere in its pricing practices. While this may be AT&T-IS' wish, it is directly contradictory to the conditions the Commission imposed upon AT&T-IS' sale of the embedded base in the Implementation Order.[4] The Commission has interfered in AT&T-IS' pricing practices of the embedded CPE to protect ratepayers and competition and the Commission should do so again to forbid AT&T-IS' discriminatory application of the termination charges.

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[4] The Commission should also clarify that AT&T may not hide the termination charge by a price reduction in the CPE available only if the customer chooses to purchase CPE from AT&T-IS. Having quoted a price for specific CPE to the customer, AT&T-IS should not be permitted to reduce its price by the termination charges to undercut a price or bid by another CPE vendor.

CONCLUSION

For the reasons described above, the Commission can not and should not declare the fixed-term agreements are valid, but should prohibit AT&T-IS' enforcement of the termination charges altogether. The Commission must, in any event, declare that AT&T-IS' discriminatory application of the termination charges is violative of the Communications Act, *Computer II* and the *Implementation Order*.

Respectfully submitted,

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Attorneys for the North
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Association

Dated: August 30, 1984.

JUN 05 84 **BILL SUMMARY** /526-09B/ 915 772 0613

DATE BILL MAILED JUN 12 - CURRENT CHARGES DUE BY JUN 28

LAST BILL			~~1332.98~~
PAYMENTS			Pd 6/4 .00
	ADJUSTMENTS	CURRENT CHARGES	
SOUTHWESTERN BELL	.00	700.71	
AT&T INFORMATION SYS	.00	2079.38	
AT&T COMMUNICATIONS	.00	653.43	
** SUB-TOTALS	.00	3433.52	3433.52

AMOUNT DUE ~~4766.50~~ 3,433.52

99 09 9157720613 526 0628 0709 521004 000133298 000476650 00

EXHIBIT A

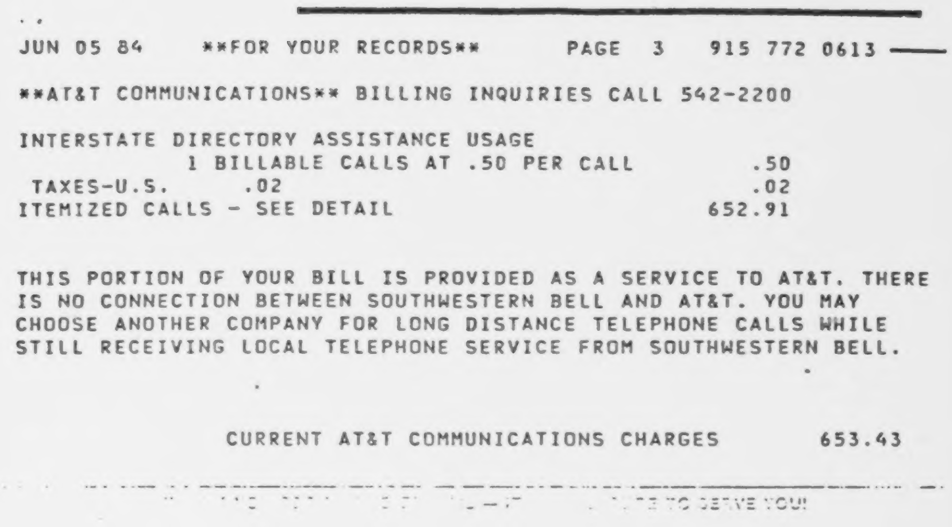
JUN 05 84 **FOR YOUR RECORDS** PAGE 1 915 772 0613

SOUTHWESTERN BELL BILLING INQUIRIES CALL 542-2200
TO PLACE AN ORDER CALL 542-2222

BASIC MONTHLY CHARGE - JUN 5 THRU JUL 4	¤7.96	198.96
DIRECTORY ADVERTISING		316.50
CUSTOMER LINE CHARGE (FEDERAL)		36.05
TAXES-U.S.	7.05	7.05
OTHER CHARGES AND CREDITS-SEE DETAIL		141.19
ITEMIZED CALLS - SEE DETAIL		.96

SOUTHWESTERN BELL CURRENT CHARGES 700.71

[illegible] SERVE YOU!



JUN 05 84 **FOR YOUR RECORDS** PAGE 3 915 772 0613

AT&T COMMUNICATIONS BILLING INQUIRIES CALL 542-2200

INTERSTATE DIRECTORY ASSISTANCE USAGE		
1 BILLABLE CALLS AT .50 PER CALL		.50
TAXES-U.S.	.02	.02
ITEMIZED CALLS - SEE DETAIL		652.91

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T. THERE IS NO CONNECTION BETWEEN SOUTHWESTERN BELL AND AT&T. YOU MAY CHOOSE ANOTHER COMPANY FOR LONG DISTANCE TELEPHONE CALLS WHILE STILL RECEIVING LOCAL TELEPHONE SERVICE FROM SOUTHWESTERN BELL.

CURRENT AT&T COMMUNICATIONS CHARGES	653.43

[illegible] TO SERVE YOU!

JUN 05 84 **RETURN PAGE** 915 772 0613

SIERRA MACHINERY INC 09F AMOUNT DUE
939 HAWKINS ~~4766.50~~
EL PASO, TX 79915 3,433.52

CURRENT CHARGES DUE BY JUN 28
RETURN THIS PAGE WITH YOUR PAYMENT

##05

PO BOX 90
RETURN THIS PAGE TO: SAN ANTONIO TX 78287

99 09 9157720613 526 0628 0709 521004 000133298 000476650 00

[illegible]

SIERRA MACHINERY, INC.
939 Hawkins
El Paso, Texas 79915
(915) 772-0613

June 26, 1984

Southwestern Bell Telephone
P.O. Box 90
San Antonio, TX 78287

9510-00

Gentlemen:

We are in receipt of your bill dated June 5, 1984 in the amount of $4766.50. Please be advised that the amount of $1,332.98, shown as past due was paid in full by our check no. 5018 dated June 1, 1984. The $3,433.52 balance on this invoice is broken down as follows:

	Adjustments	Current Charges
Southwestern Bell	.00	700.71
AT & T Information Sys.	.00	2,079.38
AT & T Communications	.00	653.43
	.00	$3,433.52

On the first item, totaling $700.71, we are deducting the $198.96 basic monthly charge for the period June 5 thru July 4, 1984. Your company disconnected and removed your equipment during the last two weeks of May. We are in fact, due a credit in this area for the unused portion of the May prepaid charges.

Paid 198.96
7-13-84
Ck# 5334

On item number three, $653.43 for AT & T communications, we are paying this item in full as rendered by you.

Item number two is $2,079.38 for AT & T Information System. We are withholding payment on this item at this time. As soon as we determine

SIERRA MACHINERY, INC.
939 Hawkins
El Paso. Texas 79915
(915) 772-0613

Southwestern Bell Telephone
June 26, 1984
Page Two

the accuracy and validity of this charge we will complete payment of this invoice. Should there by any questions, please feel free to contact us.

Thanking you for your usual fine cooperation, we remain.

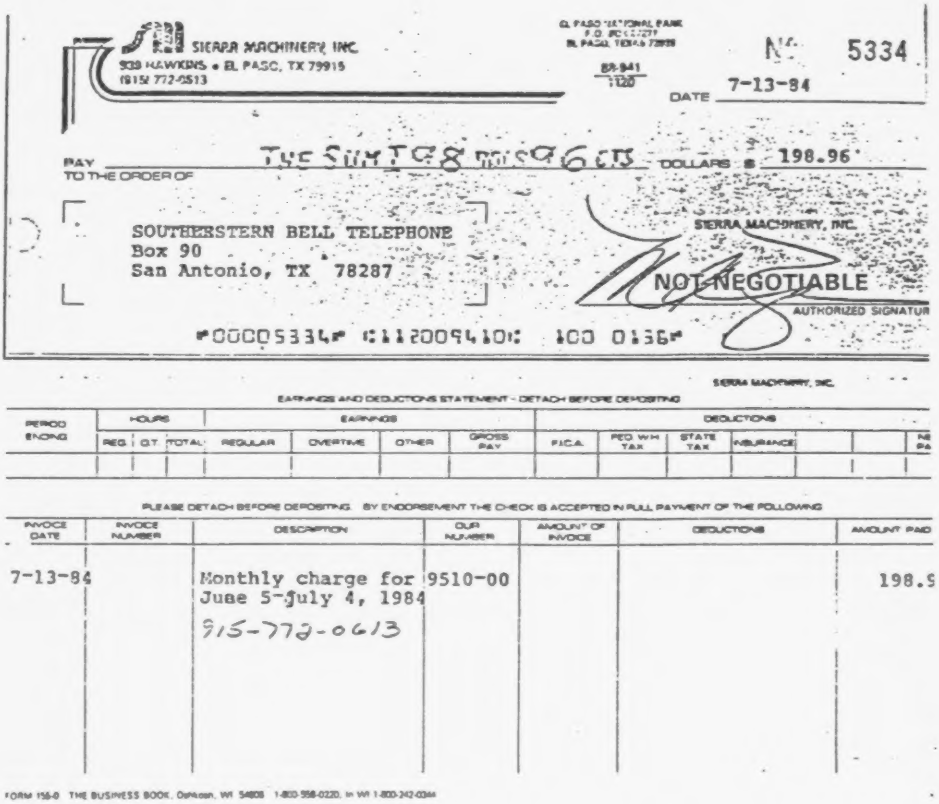
Yours truly,

SIERRA MACHINERY, INC.

Tyrus R. Jones
TYRUS R. JONES
Administrative Manager

cc: E.W. Dunbar
A. Teran
M. Almanza

Attachments: Check #5227 for $1,155.18



SIERRA MACHINERY, INC.
939 HAWKINS • EL PASO, TX 79915
(915) 772-0513

EL PASO NATIONAL BANK
P.O. BOX [illegible]
EL PASO, TEXAS [illegible]

88-941
1120

Nº 5334

DATE 7-13-84

PAY TO THE ORDER OF The Sum 198 dols 96 cts DOLLARS $ 198.96

SOUTHERSTERN BELL TELEPHONE
Box 90
San Antonio, TX 78287

SIERRA MACHINERY, INC.

NOT NEGOTIABLE

AUTHORIZED SIGNATUR

⑈00005334⑈ ⑆112009410⑆ 100 0136⑈

SIERRA MACHINERY, INC.

EARNINGS AND DEDUCTIONS STATEMENT - DETACH BEFORE DEPOSITING

PERIOD ENDING	HOURS			EARNINGS				DEDUCTIONS						NE PA
	REG.	O.T.	TOTAL	REGULAR	OVERTIME	OTHER	GROSS PAY	F.I.C.A.	FED. W.H. TAX	STATE TAX	INSURANCE			

PLEASE DETACH BEFORE DEPOSITING. BY ENDORSEMENT THE CHECK IS ACCEPTED IN FULL PAYMENT OF THE FOLLOWING

INVOICE DATE	INVOICE NUMBER	DESCRIPTION	OUR NUMBER	AMOUNT OF INVOICE	DEDUCTIONS	AMOUNT PAID
7-13-84		Monthly charge for June 5-July 4, 1984 915-772-0613	9510-00			198.9

FORM 156-0 THE BUSINESS BOOK, Oshkosh, WI 54808 1-800-558-0220, In WI 1-800-242-0344

GAF
GAF CORPORATION
140 West 51 Street
New York NY 10020
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Graphic Arts Products
Printed in U.S.A. 81 2640-010

LAW OFFICES OF
CHRISTIE, BERRY & DUNBAR
1700 NORTH STANTON
EL PASO, TEXAS 79902
915/532-3638

JOE CHRISTIE
MARK BERRY
EDWARD W. DUNBAR
MICHAEL C. CROWLEY

JOHN A. YEAGER
OF COUNSEL

2700 BEE CAVES ROAD
SUITE 212
AUSTIN, TEXAS 78746
512/327-9510

July 25, 1984

Ms. Julie D. Nelson
A T & T Information Systems
Room 200 N
8300 E. Maplewood Ave.
Englewood, Colorado 80111

RE: Sierra Machinery, Inc.

Dear Ms. Nelson:

I am in receipt of your letter dated June 28, 1984 and my client and I are still evaluating its contents. Another matter, however, has come to my attention, and I feel that it deserves your attention.

Apparently AT&T Information Systems has contracted with Southwestern Bell to collect the amounts claimed by Information Systems. In its collection efforts on the behalf of your client, Southwestern Bell has stated to Sierra that telephone service will be terminated if Sierra does not pay the amount claimed by Information Systems. We feel that this practice is not authorized by the Public Utilities Commission and should cease immediately.

It is my understanding that the rental of equipment is not a utility service and that Information Systems is not an inter-exchange carrier. The disconnection of service would only be authorized if the creditor was an inter-exchange carrier such as AT&T Communications. Sierra has promptly paid all billing statements relating to its long distance and other utility services.

In that Southwestern Bell is acting in your client's behalf, it would be appreciated if you would inform your collection agent to cease the practice of threatening severance of telephone service.

As I have stated in previous correspondence, Sierra wishes to amicably conclude this matter, but Southwestern Bell's collection techniques have done little to serve this end.

Sincerely,

CHRISTIE, BERRY & DUNBAR

By:______________________________
EDWARD W. DUNBAR

EWD/as
cc: Juliette Blahuter
Larry Smith

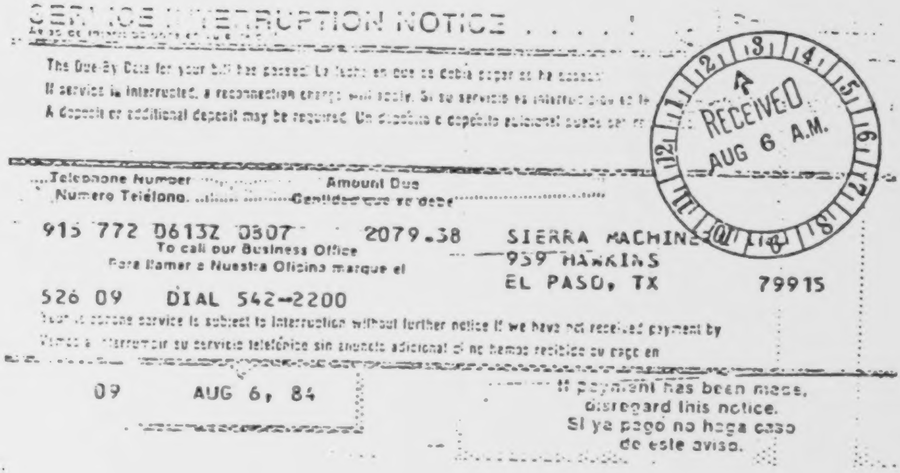
Southwestern Bell
P.O. BOX 90
SAN ANTONIO, TX 78237

FIRST CLASS MAIL

SIERRA MACHINERY INC
939 HAWKINS
EL PASO, TX 79915

RECEIVED
AUG 6 A.M.

Important
09
Notice



SERVICE INTERRUPTION NOTICE

The Due-By Date for your bill has passed. La fecha en que se debía pagar se ha pasado

If service is interrupted, a reconnection charge will apply. Si su servicio es interrumpido se le

A deposit or additional deposit may be required. Un depósito o depósito adicional puede ser re

RECEIVED
AUG 6 A.M.

Telephone Number / Numero Teléfono — Amount Due / Cantidad que se debe

915 772 0613Z 0307 2079.38

SIERRA MACHINE
939 HAWKINS
EL PASO, TX 79915

To call our Business Office
Para llamar a Nuestra Oficina marque el

526 09 DIAL 542-2200

Your telephone service is subject to interruption without further notice if we have not received payment by

Vamos a interrumpir su servicio telefónico sin anuncio adicional si no hemos recibido su pago en

09 AUG 6, 84

If payment has been made,
disregard this notice.
Si ya pagó no haga caso
de este aviso.

SM Sierra Machinery
EL PASO, TEXAS

939 Hawkins
El Paso, Texas 79915
(915) 772-0613

August 6, 1984

Southwestern Bell Telephone Co.
500 Texas St.
El Paso, TX 79901

ATTN: Norma Chavez

RE: Service disconnect notice for 772-0613
Sierra Machinery, Inc.

Gentlemen:

Attached is our check number 5545 in the amount of $2,079.38 dated August 6, 1984. We have also attached a copy of your service interruption notice.

Since no one from your office or AT & T has ever furnished us with any of our requests for substantiation of the details of these charges we are paying this sum at this time for the purpose of stopping you from putting us out of business.

Your manner of collecting these unsubstantiated charges from us will be dealt with at a later date.

Yours truly,

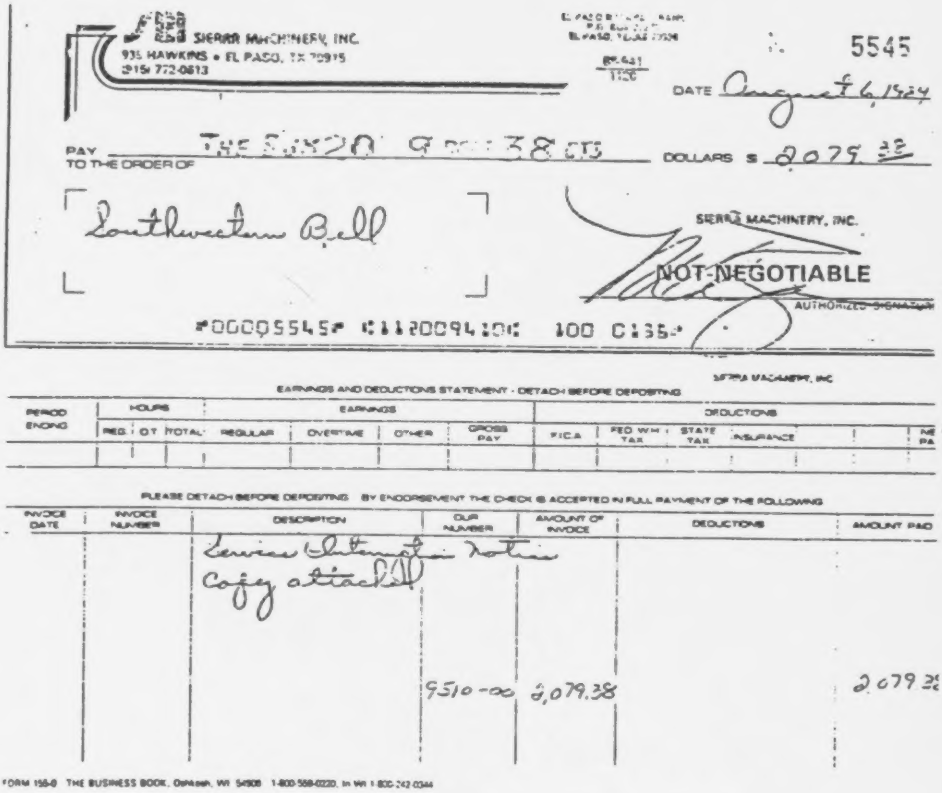
SIERRA MACHINERY, INC.

Tyrus R. Jones
Tyrus R. Jones
Administrative Manager

cc: Mr. E. Dunbar, Atty.

Received Check #5545
Southwestern Bell

By: Norma Chavez



SIERRA MACHINERY, INC.
935 HAWKINS • EL PASO, TX 79915
(915) 772-0613

EL PASO [illegible] BANK
P.O. BOX [illegible]
EL PASO, TEXAS [illegible]

88-641
1120

5545

DATE August 6, 1984

PAY TO THE ORDER OF THE SUM 20 79 [illegible] 38 CTS DOLLARS $ 2079.38

Southwestern Bell

SIERRA MACHINERY, INC.

NOT-NEGOTIABLE

AUTHORIZED SIGNATURE

⑈00005545⑈ ⑆112009410⑆ 100 0135⑈

SIERRA MACHINERY, INC

EARNINGS AND DEDUCTIONS STATEMENT - DETACH BEFORE DEPOSITING

PERIOD ENDING	HOURS			EARNINGS				DEDUCTIONS					NE PA
	REG.	OT	TOTAL	REGULAR	OVERTIME	OTHER	GROSS PAY	FICA	FED WH TAX	STATE TAX	INSURANCE		

PLEASE DETACH BEFORE DEPOSITING BY ENDORSEMENT THE CHECK IS ACCEPTED IN FULL PAYMENT OF THE FOLLOWING

INVOICE DATE	INVOICE NUMBER	DESCRIPTION	OUR NUMBER	AMOUNT OF INVOICE	DEDUCTIONS	AMOUNT PAID
		Service Interruption Notice Copy attached	9510-00	2,079.38		2,079.3

FORM 158-B THE BUSINESS BOOK, Oshkosh, WI 54906 1-800-558-0220, In WI 1-800-242-0344

AT&T
Information Systems

AT&T INFORMATION SYSTEMS TO ENTER THIRD PARTY MARKETPLACE

MORRISTOWN, NJ -- AT&T Information Systems today announced that it has agreed to have CMI Corporation of Bloomfield Hills, Michigan, assist AT&T's entry into the third party marketplace.

CMI is a major vendor of used equipment, having financed, delivered, and installed over $1 billion worth of equipment in the last two years.

"This agreement with CMI will help us develop a market in which customers who want to acquire larger systems or newer technology can recover equity in equipment they now own," said Robert J. Casale, AT&T Information Systems Division President for Marketing and Sales. "CMI will coordinate an orderly transition of AT&T-IS equipment as it becomes available for remarketing and financing. This will relieve customers of the uncertainty related to the disposition of equipment."

Casale noted that the agreement demonstrates that AT&T Information Systems is quickly responding to a prime customer need. "CMI will help us develop a market for customer-owned equipment beyond its initial usage period, as we continue ongoing support," he said.

EXHIBIT B

CMI Corporation
2600 Telegraph Road
P.O. Box 2026
Bloomfield Hills, MI 48303-2026
Telephone 313 456 0000
Telex TWX 810 232 1667

CMI
A Torchmark Company

AUG 0 1 1984

July 23, 1984

Dear :

As you may be aware CMI has entered into a consulting agreement with AT&T to assist them with their entrance into the third party marketplace. As part of our ongoing consulting agreement we have been working with AT&T in establishing maintenance eligibility and support guidelines for AT&T products as they are sold into the secondary marketplace. To a large extent these guidelines will parallel those of IBM. Our goal, obviously, is to create a flourishing after-market for AT&T equipment. The products that will be the most likely candidates to initiate the third party marketplace are the following PBX's:

Equipment	Approximate No. Installed	List Price Range
Horizon	40,000	$10,000-70,000
Dimension 100-600	30,000	$80,000-400,000
Dimension 2000	8,000	$300,000-$2,500,000

CMI is planning an organizational meeting to set up appropriate dealer parameters relative to the sale and installation of AT&T equipment. The initial product (and least complicated) we've chosen to bring to the third party marketplace is the Horizon system. We have approximately 1,500-2,000 of these units available with 30-day lead-time. We expect this product to retail for approximately 60% of list price. We will be able to provide it to you at a cost so that you should make 30-40% margin on cost. All equipment will be guaranteed for maintenance by AT&T. We will be using the Horizon project as a model for all subsequent products. This will enable AT&T to monitor the sale and installation of a single product so that a universal policy can be established for all products. Once we have a track record established on the Horizon equipment, we anticipate opening the marketplace for the Dimension products. Hopefully, this can be accomplished by the first of the year.

The key elements of this Horizon marketing program are as follows:

1. Maintenance eligibility guaranteed by AT&T
2. Fixed price installation by AT&T
3. Horizon is a current offering from AT&T
4. Equipment can be reconfigured in the field
5. The initial equipment will be coming directly from AT&T and will likely carry a limited 90-day warranty
6. AT&T supports the formation of the third party market

The organizational meeting is scheduled for Thursday, August 23, 1984 for those who are interested in becoming a broker/dealer or trading in AT&T equipment. The meeting will be held at CMI's Bloomfield Hills headquarters facility with the possibility of a subsequent training session at AT&T's Denver facility. If you have interest in attending, please call Ruth Johnson at 313/456-0000 for reservations and a meeting agenda. Please note that our space will be limited to the first 75 reservations. In the meantime, if we can answer any questions, please do not hesitate to call.

Sincerely,

Robert W. VanHellemont
Senior Vice President

RWV:dkn

Exhibit C, Attachment 1

AT&T
Information Systems

400 South Executive Drive
First Floor
Brookfield, Wisconsin 53005
Phone (414) 786 5400

June 30, 1984

Dear :

If you should decide to remove your present Dimension 400, your lease termination cost would be $14,611.77. However, your present lease could be terminated for $6,867.60 if you choose to upgrade within the AT&T Information System product line. These amounts will be reduced slightly for each month you keep your Dimension 400 in place.

, if you have any further questions or if I can be of further help to you, please feel free to call me at 435-9030.

Sincerely,

Account Executive
AT&T Information Systems

EXHIBIT C

Exhibit C, Attachment 2

January 18, 1984

491 5934
— 491-5324 -7

Account Executive
AT&T Information Systems, Inc.
2300 Northlake Center Drive
Tucker, Georgia 30084

Dear :

We wish to obtain certain information pertaining to our client, . As you are aware, they have a Dimension 100 400 EPABX currently 2-400 under contract, with approximately forty (40) months remaining. We would like to request the following information regarding this system:

1. The capacity of the system as it is presently equipped (i.e., number of trunk packs equipped and number of station packs equipped).

2. What feature package is currently operating in the system and a complete list of features included?

3. What is the latest feature package available? List each of the features included. 15

4. What would be the exact cost to purchase the system now in place?

5. What would be the cost to purchase the system now in place less all station equipment?

6. What would be the cost to purchase the entire system after adding the latest feature package?

7. What would be the cost to purchase the system with the latest feature package less the station equipment?

8. The cost of adding CDR and LCR to:
   - A. The present system
   - B. The system if upgraded to the latest feature package

9. Explain in detail what obligation the customer would have with respect to the Basic Termination Charge if we elect to purchase the present system and/or upgrade to the latest feature package and then purchase.

10. Explain in detail your maintenance policies in the event the customer purchases the system.

11. Is a CAP available so that customer can do own programming, moves, etc.? What is cost?

12. What are your policies regarding the customer providing their own maintenance? Will you train a technically qualified individual to maintain the system....and the cost?

13. In the event the customer elects to purchase a system from another vendor, with a cutover date of May 1, 1984, what would be the exact charges applicable to the basic termination charges? Please explain how you arrive at this charge.

We will require this information, in writing, no later than Friday, January 27, 1984.

Yours very truly,

Vice President

/dm

cc:

American Bell
Advanced Information Systerr

P O Box 7000
2300 Northlake Center
Suite 212
Tucker, Georgia 30084
Phone (404) 491-2000

January 30, 1984

Dear ,

Here is the information you requested regarding
:

1. The capacity of the system as it is presently equipped:

   4 trunks circuit packs
   13 Station circuit packs
   1 Attendant Conference arrangement circuit pack

2. The system is presently equipped with Feature 4. For feature listing, see Table A (attached).

3. The latest Feature Package available is Feature Package 15. For feature listings see Table A (attached).

4. $19,986.68 - purchase price for present system.

5. $17,809.68 - purchase price for present system less all station equipment.

6. Present system is not upgradable to Feature Package 15.

7. New D-400 with Feature Package 15 - $53,782.00
   Less Present Station Equipment - $ 2,177.00
   Total - $51,605.00

8. a. LCR and CDR cannot be added to present system
   b. Cost of adding LCR to upgraded system: $ 1,440.00
   Cost of adding CDR to upgraded system: $29,101.00

9. If the customer decides to purchase the present system there is no termination charge.

Should the customer decide to upgrade Feature Package 15, the termination charge would be $8,930.27. The termination charge is figured by first determining the termination factor. The termination factor corresponds to the number of months the customer is into his contract. By multiplying the termination factor by the customer's monthly bill, one arrives at the Basic Termination Charge.

10. Should the customer purchase the present system, the system is maintained by A.T. & T. Information Systems free of charge for three months. Following that period, customer may elect to utilize a maintenance contract. Price: $275.15/month. Any work on Common Equipment consoles would be handled on a Time and Materials basic.

11. A CAP is available to customer. Cost: $2,060.00

12. Customer has the options of providing his own maintenance. We have no provisions for training a customer appointed individual for the purpose of maintenance.

13. Should the customer elect to purchase a system from another vendor, with a cutover date of May 1, 1984, the basic termination charge would be $19,416.75. This charge was figured according to the following formula:

    Number of monthly payments remaining on Tier A X monthly amount = termination charge.

14. In regard to the customer's being reimbursed for double billing I have marshalled the following information:

    1. Before any reimbursement can occur, a Standard Interface Form (copy attached) must be completed and sent to:

       Miss Phillips
       Southern Bell Billing Management Center
       P.O. Box 511
       Columbus, Ga. 31994

       District Mgr
       451-[illegible]
       452-2176 D.M.
       [illegible]

    2. Miss Phillips tells me that under no circumstances will customer be issued a check.

    3. Customer shall be reimbursed through crediting his monthly bill.

Should you decide to pursue this option, please advise.

If you have any questions regarding the responses to the points outlined in your letter of January 18, please call me at 491-5957.

Sincerely,

American Bell
Advanced Information Systems

February 13, 1984.

Dear ,

Enclosed is the information you requested regarding your client, . Only revisions to questions 4, 5, 6, 7, 14 are listed. Answers provided to questions 1, 2, 3, 8, 9, 10, 11, 12, and 13 remain unchanged from my letter of January 30.

4. $30,653.68
5. $28.193.68
6. Present system does not contain cost-reduced equipment which is upgradable to Feature Package 15. Certain vintage Dimensions with F.P. 4 are upgradable to F.P. 15. These switches are equipped with cost reduced hardware, i.e., circuit packs which can be re-used when upgrading to F.P. 15. The switch at does not have such equipment, and thus can not be upgraded. Your client does have the option, however, of terminating the lease on his present equipment, and purchasing a new switch with F.P. 15 capabilities. Should you decide to exercise this option, the charges would be as follows:

Upgrade fee:	$ 8,930.27
New Switch w/ F.P. 15:	$54,065.00
TOTAL	$62,995.27

7. $60,535.27

14. Per , I have forwarded completed Standard Interface Form to:

will process form and then contact you regarding customer reimbursement.
All dollar figues used in this letter are based upon current company policy and may be subject to change.

Sincerely,

Exhibit C, Attachment 3

AT&T
Information Systems

Suite 501
2500 Mt. Moriah Road
Memphis, TN 38115
Phone (901) 369-4500

June 25, 1984

Dear :

Your Account Executive, , has informed me that you are presently considering upgrading your Dimension* 100 Communications System, and have inquired about AT&T's corporate position on the issue of termination charges applicable to your existing contract. As you are one of our most valued customers, I feel a need to provide you with a clear and concise explanation of our stance on this issue, in order to avoid any misunderstandings. Please understand that you would not be responsible for the full termination charges should you decide to upgrade to a larger Dimension, as they only apply to a removal of all AT&T equipment.

AT&T Information Systems has been assigned the contract for the telephone equipment which you previously entered into with South Central Bell Telephone Company. Under the provisions of the divestiture of local Bell Operating Companies which went into effect on January 1, 1984, AT&T-IS will both honor and enforce the fixed term agreements explicit to those contracts.

A customer who would like to continue receiving the same service as was provided before 1-1-84, may continue to do so under the same terms and conditions of the contract entered into prior to 1-1-84, until expiration. Conversely, a customer who would like to discontinue service and have all equipment removed would be subject to termination liability as set forth in the contractual agreement and in the state tariff applicable to that agreement.

*Registered Trademark of AT&T

Specifically, should you elect to disconnect your AT&T-IS telephone system under the terms of your 48 Month VTPP contract, you would be billed termination charges amounting to approximately $31,867.34.

There are a number of other options available to you, including purchase of your in-place equipment, conversion to an AT&T-IS service agreement, upgrade to an enhanced or newer technology telephone system, or continue on with your current contract. Your Account Executive is prepared to discuss all available options with you at your convenience.

Feel free to call me if I can be of further assistance.

Yours truly,

cc:

ITEMIZED TERMINATION CHARGES

ITEM	QTY	MONTHLY COST PER ITEM	TOTAL CURRENT MONTHLY COST	TOTAL TERMINATION COST
ECTS Common Equip. w/Cab.	1	$ 176.50	$ 176.50	$ 3,177.00
Page Pac 50 WATT Amplicenter	1	50.00	50.00	840.00
Speakers (Horn Type)	8	5.00	40.00	672.00
Trunk Ckt. Packs	7	10.50	73.00	1,357.80
Line Ckt. Packs	10	13.50	135.00	2,511.00
Control Unit 85A1	2	8.50	17.00	285.60
Touch-Tone* Receivers	1	13.00	13.00	218.60
Paging Intfc. Ckt. Pack	1	28.00	28.00	470.40
Attendant Console	1	92.00	92.00	1,545.60
Steering Packs (ECTS)	1	9.50	9.50	171.00
Touch-Tone Senders	1	12.50	12.50	210.00
Tie Line Ckt. Pack	1	14.50	14.50	269.70
Paging Speaker Wiring	8	1.76	14.08	248.64
Dimension* Service Package	1	1,105.00	1,105.00	19,890.00
			$1,780.08	$31,867.34

NOTE: The full $31,867.34 in termination charges will only be incurred if all AT& Information Systems equipment is disconnected, and replaced with a system provided by another vendor.

*Registered Trademark of AT&T

JUNE 26, 1984

APPENDIX F.—"BEYOND THE BELL BREAKUP," BY PETER F. DRUCKER

Beyond the Bell breakup

PETER F. DRUCKER

SUCH discussion of the Bell System breakup as there has been—and there has been remarkably little—has centered mainly on the consequences for the shareholders and on share and bond prices. Yet few governmental actions since World War II will have such profound impact on American society, on American technology, and even on national security, as the antitrust suit against AT&T and the subsequent dissolution of the Bell System. Few so immediately affect every individual in the country. The antitrust suit and its sequel raise serious and disturbing questions about those twin pillars of the American political economy: regulation of business and antitrust.

Antitrust: the cynics' view

For antitrust cynics—and among economists they outnumber the "true believers" about ten to one—it is almost axiomatic that no major antitrust suit is ever brought until the alleged monopoly is already on the skids. For it is only then that competitors appear; their complaints that the monopoly is not collapsing fast enough push the antitrust machinery into action. And then the antitrust suit, the cynics contend, achieves the very opposite of what the anti-

p 3-27

Public interest fall 1984 no. 77

trust champions intend. By forcing the monopolist to stop defending yesterday, it restores his leadership position and gives him a near-monopoly on tomorrow.

This surely applies to America's most celebrated antitrust suit, the one that resulted in the breakup of John D. Rockefeller's Standard Oil Trust three quarters of a century ago. The "monopoly" which Standard Oil had was on kerosene, which had been *the* petroleum product until Henry Ford's Model T created a mass market for gasoline. In 1911, when Standard Oil was broken up, the gasoline market was still secondary but was growing fast, while kerosene was already in full decline and being replaced in all but rural areas by electric lights. And the gasoline market in the U.S.—and even more outside of it—was quickly taken over by aggressive newcomers such as Shell in England, Royal Dutch on the European continent, or Gulf and Texaco in the U.S. Yet Rockefeller stubbornly clung to kerosene, on which indeed Standard Oil had a near-monopoly worldwide. It was only after antitrust had succeeded in breaking up the Trust—in the process also dislodging the Rockefellers from active management—that the successor Standard Oil Companies were free to concentrate on gasoline. Ten years later, they had 70 to 80 percent of the U.S. gasoline market and almost 50 percent of the gasoline market in the outside world.

Similarly, IBM would never have achieved worldwide leadership in the computer market had an antitrust suit not been brought against the company in the mid-1940s for monopolizing the punch card. But by 1947, punch cards were already becoming obsolete. IBM had actually done most of the work needed to give it leadership in the technology of tomorrow: the computer. But its stubborn defense of the punch card paralyzed it to the point where it actually stifled research on computers and on marketing them. The antitrust suit enabled the proponents of tomorrow in IBM management, especially the founder's son, Thomas Watson, Jr., to shift the company's efforts from defending the past to attaining leadership in the future.

The next antitrust suit against IBM, the one the government finally abandoned in 1982 as hopelessly confused, was also brought at the very moment when minicomputers and personal computers first arose to challenge IBM's domination of the domestic market, and when the Japanese first became serious competitors in mainframe computers worldwide. This probably pushed IBM out of being content to be number one in mainframes, and into frantic efforts to do something it had earlier spurned: enter the market for small and personal computers.

There is little doubt that the antitrust suit against AT&T (the Bell System) which ended last January with the split-up of the system, was similarly brought when the company's monopoly had already been breached. It certainly forced the company to give up defending yesterday. What we do not know yet is whether it will, as the earlier suits did, enable AT&T to dominate the communications market of tomorrow: The challenge is clearly there.

A phone in every room

Some 30 years ago, AT&T made the critical decision that would eventually lead to its being broken up. The company then ran its own Advanced Management School in Asbury Park, New Jersey, to which the "comers" in upper middle management were sent for several weeks of intensive training, usually just before being promoted into their first senior management jobs. The assignment for one of these classes during the final week at Asbury Park was to think through objectives and strategy for the Bell System, now that it had achieved its original and long-term objective of providing universal access to telephone service for everyone in the United States. (As it happened, I was the guest lecturer at Asbury Park that week and in charge of the sessions.) The assignment was to work out one recommendation for Bell System top management. But the class could not agree, and ended up—to everyone's intense annoyance—with a majority and a minority report.

The majority recommended that Bell change its basic posture in the market. While for more than 60 years the emphasis had been on providing everyone in the country with minimum service at lowest cost, the emphasis henceforth, the report proposed, should be on making people use their telephones as much as possible. This would mean pushing extensions in addition to the single telephone on the wall of the kitchen. It would mean selling more than one line to a customer (an extra phone for teenage children, for instance). It would also mean making the phone "interior decoration" rather than "utility"—"princess phones," for instance, or phones in colors other than black.

"All this is necessary," the minority agreed, "but it's not nearly enough. In fact, it's only rear-guard action and good for—at most—20 years. The traditional telephone market is saturated; let's face it. The growth, and it is already fast and speeding up, is in long distance and in transmitting signals other than voice such as television programs and computer data. What is needed in addition to hard selling of traditional local service is a basic change in policy.

Indeed, what is needed is a redefinition of the 'system.' We have always defined it as local services connected to each other by long distance lines. We now need to redefine 'system' as a national and increasingly international information processor with local outlets. Specifically, this means first changing the basic pricing policy. Traditionally, we have priced so as to give the local subscriber the lowest possible cost while long distance users have paid a good deal more than the full cost of interconnection and of access to the local user. This way, long distance has been priced way above cost, and has in effect heavily subsidized local service. This needs to be changed so that the local subscriber pays the full cost and pays for access to the network. And then we ought to shift from having telephone rates regulated by 48 states, each only concerned with getting minimum service at minimum cost for local subscribers, to national regulation; for instance by the Federal Communications Commission, with the emphasis on getting optimum national service at the lowest cost to our nation. Our traditional policies were rational when local service was our first priority and the growth sector. It is becoming deleterious to the company as well as to the nation, now that the growth opportunities have changed."

Bell System's top management took these recommendations very seriously and studied them in depth. In the end, it decided to adopt the majority report. It was, we know by hindsight, the wrong decision. But there probably was no choice. To go along with the minority would have meant 48 battles with 48 state public utility commissions. Moreover, thousands of Bell Telephone people throughout the country had been inculcated for years with the local-service creed, and would have resisted any change. As it was, they strenuously resisted even the majority recommendation. "I have always been proud to provide public service and now they want me to be a huckster," one Bell System friend said when he saw the first phones in "decorator" colors. Another friend, the Chief Engineer for one of the operating companies, had been complaining for years that his four teen-aged children monopolized the phone in his home. But when he heard that his company was going to push separate "teenager lines," he exclaimed, "This is immoral," and immediately took early retirement.

There also did not seem to be any risk in at least postponing the shift in emphasis from local service to the fast-growing, non-local services. Bell, after all, was regulated. Thus it was considered in those days to be immune to antitrust, and to be able to exclude all would-be competitors. It was an inevitable decision, but the wrong one.

The short-sighted hard sell

The hard-sell campaign which the majority had recommended became a tremendous success. Within ten years it converted the home telephone from a "utility" into a "convenience," if not into "fashion" and "glamor." Few marketing campaigns in American history have been nearly so successful. Ironically, this great success in the end seriously damaged AT&T. It created a debilitating conflict between customer expectations and regulatory reality. AT&T's marketing campaign made customers avid for novelty, for rapid change, for new features. But the regulatory realities—largely a reflection of AT&T's earlier values—resisted novelty, rapid change, and new features. All 48 state regulatory commissions in the continental U.S. had long ago been taught by AT&T that their job was to ensure universal access to minimum telephone service at lowest cost. This meant, specifically, that AT&T was not permitted to write off equipment still in good physical condition, even though technically obsolescent, unfashionable, or "basic" rather than "sophisticated." AT&T's campaign created a market for rapid change in telephone equipment, whether receivers or switchboards. But AT&T kept hundreds of thousands—perhaps even millions—of obsolete models that were older but still perfectly serviceable and therefore could not be written off or junked. And so AT&T found itself caught between not satisfying the very demand it had worked hard to create, and taking enormous losses on old equipment that might have endangered its financial integrity. Estimates of the write-off run into the billions. AT&T, understandably trying to hedge, only created a market for potential competitors.

At the same time, the forecast of the minority report proved correct: Non-local service, long distance telephoning, television transmission, and data transmission grew exponentially. In total numbers, calls within local areas still outnumber non-local calls. But both in demands on the system and in revenues, non-local services became, around 1970, the telephone system's center of gravity and its dominant, if not its only, growth sector. By now, Americans spend two dollars on long distance calls for every dollar they spend on local service. For the subsidized local subscriber, this was good news. But it also meant that non-local rates, and especially long distance rates, became increasingly divorced from costs, all the more so as the rapid rise in the volume of non-local traffic brought about a drastic reduction in its costs. AT&T did the intelligent thing: It offered large discounts to volume users. But this only increased AT&T's vulnerability, for it meant that anyone able to become a wholesaler—that is, anyone who could place enough individual long distance calls to qualify for the wholesale discount—could underbid AT&T's rates, and still make a handsome profit.

Finally, telecommunications technology exploded—largely as a result of the scientific contributions of AT&T's own Bell Labs. The transistor, switching theory, and information theory all came out of Bell Labs in the 1950s, and so did a good deal of computer logic and computer design. As a result of these breakthroughs, the telephone has virtually disappeared as unique technology. From AT&T's vantage point, the computer—for instance, in an office switchboard or in a central station—is an adjunct to the telephone; from the vantage point of an IBM, the telephone is simply a computer accessory.

No monopoly in history has ever survived even one such change, let alone several. If competition is forbidden by law, it comes in through a black market, but it comes in. Sooner or later, and usually sooner, the law is then changed one way or another. This is exactly what happened to AT&T. "Extensions" into which phones can be plugged had been quite rare; AT&T's big market push in the 1960s made them commonplace. This then created the market for competitors who, at first semi-legally, offered "decorator phones," "fun phones," and other, still officially forbidden, attachments. Then competition moved in on the office switchboard. AT&T had spent millions to develop electro-mechanical switchboards to take the place of the old, manually operated ones. But the competition offered computerized switchboards that leapfrogged over AT&T's equipment. The technology to do so had come from AT&T. But because of its inability to write off, let alone to junk, old equipment that had become technically obsolete while remaining in perfect physical condition, AT&T had to stick with electro-mechanical—that is, outdated—instruments. Finally wholesalers came in—MCI, Sprint, and a host of others—who offered long distance service to individual subscribers at 30 to 50 percent below AT&T's rates. AT&T invoked its traditional right as a regulated monopoly to keep these competitors out. But the courts, reversing a century of decisions and long-settled legal doctrine, ruled in case after case that a regulated industry is not exempt from antitrust, and that AT&T could not discriminate against competitors, ban their equipment, or penalize competitors' products in any way. In one important area, the impact on AT&T was immediate and substantial. In 1960, AT&T supplied almost all of the office switchboards used in America. Its share of the switchboard market now is less than one third, with the bulk of new equipment being supplied by companies like ROLM that began as computer manufacturers.

The biggest loss has been in long distance. As late as 1981, AT&T's Long Lines Department still handled 90 percent of all long distance calls in the country. By the middle of 1984, its share had dropped to 60 percent. Above all, AT&T has lost the most profitable market segments: The larger users increasingly either build their own system to link their plants and offices throughout the nation, or switch to telephone discounters such as MCI and Sprint.

From "Ma Bell" to "Monster Bell"

AT&T was thus increasingly forced on the defensive, and increasingly trapped between the need to maintain high long distance rates to subsidize local service, and the need to cut long distance rates to stanch the bleeding. Still, AT&T might have survived had it not been for inflation. The inflation of the 1970s eroded both the financial and the political base of the Bell System. And it undermined AT&T's self-confidence.

Employees within AT&T's own operations rarely know that their company has been one of the biggest non-governmental financial institutions in the world. Not only has the company been the capital markets' heaviest borrower year in and year out, for the telephone business is highly capital intensive. AT&T has also been the country's biggest lender. It has had to finance every single telephone subscriber for many years.

Traditionally, the subscriber did not buy the telephone connection to his home or his place of business, nor did he buy the equipment. The telephone company furnished both and was repaid out of operating revenues. And it took an average of five or six years until the subscriber's payments fully reimbursed the telephone company for the installation investment. Originally this was necessary; very few people in the telephone's early years would have been willing or able to pay the fairly large sums needed to get service. But in the years before World War I, Theodore Vail—AT&T's president from 1905 until his death in 1920 and the architect of the Bell System—turned this necessity into virtue and profit. He realized that AT&T could borrow at far lower interest rates than an individual possibly could; historically, AT&T has paid between 3 and 4 percent for its money. AT&T could thus finance the customer at a very low rate —4.5 to 5.5 percent on historical average—and yet make a handsome profit. This not only gave AT&T tremendous financial strength and security; it also enabled the company to lower rates for local service even more. Thus everybody profited.

But this very best of all possible financial worlds came to a rude end when the inflation of the 1970s pushed the interest rates AT&T had to pay to 13, 14, and 15 percent. While the interest rate to AT&T changed, the rate to the telephone subscriber remained frozen. Financing the subscriber then became a dangerous drain. Market growth—that is, new subscribers applying for service—became a threat, which explains why the Bell Companies have been doing worst where population has been growing fastest (as in southern California). Despite its automation, the telephone is still quite labor-intensive. And so, as inflation pushed up wages, AT&T and its operating companies were forced to ask for higher rates. But because financing of new subscribers—and additional installations for old subscribers as well—turned a riskless profit-making venture into a big financial loss, AT&T was forced to ask for even higher rate increases well beyond the rate of inflation.

In most parts of the country and for most services, the telephone, adjusted for inflation, still costs a good deal less than it did in 1950 or perhaps even in 1960. And American telephone service is still cheaper than telephone service anywhere else, with the possible exception of Canada. But for more than 60 years, the American public had known only declining telephone rates—and local subscriber rates had been declining both the fastest and the most consistently. Now, all of a sudden, telephone rates were going up, and local service rates were going up the fastest.

There surely has been far less "public uproar" over rising telephone rates than newspaper stories and TV commentators have reported. For the most part, the public contented itself with writing a few letters to the editor. But the political impact was considerable. Governors, state legislators, and public utility commissioners realized that they could get headlines and gain popularity by publicly resisting requests for higher telephone rates and denouncing the "telephone monopoly."

The psychological effect on the people at AT&T was devastating. Big companies—and big institutions generally, including universities, hospitals, and labor unions—tend to suffer from the dangerous delusion that the customer "loves" them. They are then shocked when they find out that a totally unsentimental and totally ungrateful customer only asks: "What will you do for me tomorrow?" But no institution in the U.S.—certainly no other business—has been so concerned with its standing in public opinion and so convinced of its being "loved" as the Bell Telephone System. This was by no means confined to top management. The lower ranks were even more deeply imbued with the Bell mystique.

And so the fairly mild protests against AT&T and its operating companies, protests which at General Motors would probably have been mistaken for expressions of endearment, came to the telephone employees as rejection by the beloved. A good many middle-management people I know in the Bell System feel as if their lives had been in vain. They had devoted their entire careers to serving the public, only to be attacked as greedy and reviled as profiteers. All along they had been confident of the public's support, and now, when for the first time they needed the public in a time of financial erosion and increasing competition, the public was turning against them.

It was just then, when all the traditional foundations of the Bell System were tottering, that the Justice department, on November 21, 1974, brought an antitrust suit asking for the breakup of the Bell Telephone System.

Breakup . . . without a fight

The AT&T suit has been documented more fully than any other antitrust suit in American history.[1] Yet it is full of puzzles.

It is reasonably certain that the suit was brought only because of the political vacuum in the White House at the end of the Nixon presidency, which freed the antitrust lawyers in the Justice department of political restraints. But why did the government pursue the suit? A Presidential Commission in the Carter administration condemned it as contrary to the national interest. Half a dozen members of the Ford, Carter, and Reagan cabinets recommended that it be dropped. And the Pentagon said publicly, on more than one occasion, that a standardized national telephone system under unified central management is absolutely essential for defense, and must not be broken up. Yet neither Ford, nor Carter, nor Reagan did anything to stop the suit. Why?

The Justice department, for its part, did little to push the suit. It waited six years, until January 1981, before bringing the suit to trial. And then it immediately adjourned the trial in the hope of a settlement offer from the company. The only rational explanation is that the higher-ups in the antitrust division were under pressure from their own "true believers" to bring the suit, but expected to lose it.

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[1] By Alvin von Auw, who for twelve years until his retirement at the end of 1981 was AT&T Vice President and Assistant to the Chairman. His book, *Heritage and Destiny: Reflections on the Bell System Transition* (New York: Praeger, 1983), reprints many of the government's and the company's briefs, internal memoranda, transcripts of meetings, and so on. It is probably the best record of what really goes on in a big organization and inside its top management, and is fascinating.

AT&T's behavior was equally puzzling. AT&T has worked harder on public relations than any other large corporation in America. Yet its efforts to mobilize public opinion through the close contacts it had built up over the years with newspapers, local politicians, and academics were pathetically inadequate. Bell System's executives, as the von Auw book shows, knew from the very beginning that much higher rates for those least able to afford them, the individual subscribers, would inevitably result from separating local from long distance service, which was the antitrust division's first and central demand. Indeed, anyone on the outside, even if only superficially acquainted with the economics of the telephone, knew this. Yet I know of no attempt to alert customers or even the various public utility commissions—nor does von Auw's book mention any. Bell System management also knew—it was again obvious—that any change would mean both substantial layoffs and sharp wage reductions for Bell System workers. Like all protected industries, the Bell System was able to pass on wage increases to its customers, and thus had been forced to keep both employment and wages artificially high. Yet apparently no attempt was made to enlist the 600,000 Bell workers or their union, the Communications Workers of America, on the company's side in opposition to the antitrust suit. Nor did the union itself say one word about the suit that so clearly endangered it—perhaps even its very survival—even though opposition from the pro-union members of the Congress would almost certainly have put a fast stop to the suit. And Bell System management never, it seems, publicized the strong Pentagon protest. And yet, as the von Auw book documents conclusively, Bell System top management was emotionally committed to fighting the antitrust suit all the way without making any concessions, and considered the suit to be both totally without merit and totally immoral. Indeed, judging from the documents in the von Auw book, top management in AT&T was preoccupied for several years with fighting the suit and had time for little else. Had Bell's top management lost its nerve? Was it so overcome with its vicissitudes, and especially by its seeming rejection by the American public, as to have become virtually paralyzed?

All of a sudden, in the closing weeks of 1981, Bell capitulated. It voluntarily offered to divest itself of the operating companies and to restrict itself to long distance and overseas operations, to the manufacture and sale of telephone equipment, and to telecommunications research. The decision came without any warning and as a surprise to everyone in the Bell System, where it was then generally believed that the suit would surely drag on until around 1990, and would finally be fought out in the Supreme Court. Instead, Bell accepted voluntarily most of what antitrust had asked for.

The only rational explanation for the sudden about-face of the Bell System top management is that it found itself forced to redefine its own role and function. Since Theodore Vail's days in the early years of the century, AT&T has always seen itself as a "private company in the public service" rather than as a "private business." It was in this tradition, as the documents in the von Auw book clearly show, that Bell System top management felt itself duty-bound to fight the government antitrust suit as likely to damage the American economy, to penalize the poor, and to endanger America's technological leadership (as we shall see, all perfectly legitimate concerns). But then, for six long years, no one in the public noticed their plight and came to their support—neither the media nor the administration nor the public utility commissions of the states, nor the labor union, nor even the Pentagon, which probably had more at stake in the antitrust suit than anybody else. And then, though one can only guess, the Bell System top management people might have said to themselves, "If no one accepts us as defenders of the public interest, we have to do what the law tells us is our duty, that is, look after the interests of the company and its shareholders."

And so, once they had capitulated, they acted with amazing speed. Two years later, on January 1, 1984, the Bell System breakup was complete. AT&T accepted competition in long distance service, and in providing instruments and equipment to the public. In return, AT&T was relieved of all responsibility for local service and with it of the responsibility to subsidize the local subscriber. This responsibility is now being shifted to seven independent large regional companies. Neither the operating companies nor AT&T have to finance the customer's equipment any longer. They are now free to sell it. AT&T will eventually be free to set long distance rates and thereby to fight back against competition that its former rate structure created and indeed subsidized. For the first time since the 1920s, when earlier antitrust fears made the Bell System sell its European manufacturing operations (after which it confined itself to North America, and since the 1950s to the Continental U.S.), AT&T can compete worldwide. And it can engage in any business whatever, for instance selling computers and office equipment.

But what specifically is the future for the operating companies and for AT&T? And what does the Bell breakup mean for the American telephone user and for American national security?

Regional difficulties

Every one of the new regional companies into which the Bell System has been split has committed itself publicly to bold entrepreneurship and aggressive marketing—for instance, to leadership in cable television. But the future of the operating companies will depend on something far more mundane: on their ability to succeed in the traditional business of offering common carrier service for a diversity of electronic messages going from one telephone instrument to another.

The former Bell System operating companies will all face several highly turbulent years fighting for the rate increases they need to survive. In many areas and for many classes of service, rates will double. And this will be all the more difficult politically because the antitrust suit promised, of course, that the consumer would greatly benefit from the breakup of the Bell monopoly. But in addition to losing the subsidy from long distance, the operating companies will have to pay a good deal more for the money they need now that they are no longer sheltered monopolies. And they will have to raise very large sums of money for equipment and facilities.

Second, they will have to complete the shift they have only begun: from owning, leasing, and installing equipment to selling it. Within ten years, the operating companies will have to transfer to the customer the burden of paying for telephone instruments, and also for the connection from the nearest telephone line to the user's building. They will not be able to finance equipment for the user, nor be able to afford the labor costs of installing and repairing equipment. Eventually this may lead to a new and profitable business—if and when interest rates come down. The Bell Companies may be able to start finance companies which will offer the consumer five to eight year installment finance on attractive terms. But this is well into the future. In the meantime, companies will have to persuade both the public and the public utility commissions of the 48 continental states (for AT&T does not operate in Alaska and Hawaii) to allow them to withdraw from a service consumers and public utility commissions have been taking for granted for a century. We will thus inevitably see more attempts to guarantee low cost telephone service for the poor, such as the recent California Universal Telephone Law. But this simply means that the subsidy to the local users that business

—that is, high volume long distance users—formerly paid will now be provided by the taxpayer.

But perhaps even more difficult will be the labor problem. What the operating companies need is something like a one-quarter to one-third reduction in total employment and a one-quarter to one-third reduction in hourly labor rates and in the total labor cost burden. Historically, public utility commissions have automatically allowed the telephone company to pass along all employment costs and all wage increases. This is unlikely to continue, in part because rates have become highly politicized, in part however because unions —especially large, mass production unions—have lost so much of their political power. Elected officials, such as Public Utility Commissioners, are now clearly more afraid of taxpayers than they are of the union vote. And Bell workers, as employees of a protected industry, have achieved wage benefit levels higher than Bell's competitors pay.

There are 600,000 members of the Communications Workers of America, and any reduction of staff and pay will hit hardest at installers and repairmen, the most highly paid but also the most completely unionized of all Bell workers. Yet they know that striking is not going to help them much; telephone service is so highly automated that most subscribers would not notice even a very long strike. Labor relations, in other words, are bound to be bitter on both sides, and turbulent.

Each of these tasks is difficult and represents a complete break with Bell System tradition. Each is going to cause raucous quarrels, bitterness, and bad publicity. But each will have to be tackled.

Learning to compete

It is far more difficult to predict the future of AT&T, the former parent of the Bell System, now that it has been released from all parental responsibility—providing local service, installing and financing equipment—and from restrictions on the sale and pricing of its products, and the restriction to do business only within the continental U.S. Or, rather, one has to predict "futures." For AT&T is not one, but four major businesses, each quite different though interlocked with the others.

First there is non-local telephone service. For some additional time, AT&T may still labor under a fairly heavy competitive penalty. The competing long distance services have lobbied, and with considerable success, to delay for a year or two AT&T's proposal to levy "access charges" on local telephones, charges that would have curtailed the competitors' rate advantage and have enabled AT&T to cut its own long distance rates fast and sharply. But even after the penalty is eventually removed, AT&T will face an uphill struggle to get back the long distance users it has lost, and especially the big ones among them. Whether it can ever regain its leadership is questionable. A good many of the best long distance customers, the very large ones such as the big multi-plant companies or the very big banks, have been pushed by AT&T's high long distance rates into building their own private telephone systems. And so have several of the competing services. The biggest, MCI, is actually planning to build its own trans-Atlantic circuits.

Even murkier is the future of AT&T's second unit, the huge manufacturing subsidiary, Western Electric. In number of employees (150,000), Western Electric ranks tenth among American manufacturing companies; in sales ($12 billion) it ranks twenty-second. But in profitability it ranks well below 300, with a laughable return of 2.5 percent on sales and a return of 7 percent on assets—less than one third of such comparable engineering companies as General Electric or IBM, and a good deal less than half of the minimum return an engineering company needs to defray its cost of capital. But, of course, Western Electric never had to compete, as the Bell System bought everything it turned out. It never was run for profit, but as a supplier to the operating companies. And it never had any credit losses, or inventories to write off, or marketing expenses.

Now, almost overnight, Western Electric will have to compete for every order it gets. Under the antitrust settlement, the operating companies have to consider every supplier rather than favor one of them—and the state Public Utility Commissions will make very sure they do. All of the world's traditional telephone equipment makers—Siemens from Germany, Ericsson from Sweden, the ITT companies from this country, Great Britain, Germany, France and Belgium, NEC from Japan, and half a dozen others—are already in the American market hawking their wares to Ma Bell's orphans. And the mightiest and the most aggressive new competitor, IBM, is moving full speed into the telephone business. It has bought a substantial interest in ROLM, Western Electric's most dangerous competitor in the switchboard field, and another big holding in Intel, a leading manufacturer of the semi-conductors that go into telephones and telephone switch gear.

On top of all this, Western Electric must break into a world market that it once dominated, but from which it retreated 60 years ago. It needs the volume. As long as Western Electric had to make everything the Bell Companies bought, and as long as the companies in turn had to buy everything Western Electric made, Western Electric had to produce an unknown but very large number of items that were neither the right products for its plants nor even remotely profitable. Obviously, it will not be able to sell these products from now on. And where, except in the export market, could it possibly get the volume to fill this capacity? The developing world is *the* market for truly advanced telecommunications equipment today, simply because developing countries (such as Singapore, Colombia, Kuwait) do not have large quantities of older equipment still functioning that would be too good to replace overnight. Thus, Western Electric has energetically moved out of the U.S. into a partnership with, for example, Olivetti, the large Italian office equipment and minicomputer maker. Yet the world market is already oversupplied with telephone manufacturers, and the big telephone orders —typically orders from national governments, of course—require the kind of financial encouragement that large exporters in Europe or Japan get from their governments as a matter of national policy, but which does not exist in the U.S.

Western Electric has formidable assets in design, in engineering, in manufacturing—in everything, in fact, but marketing. It also has no choice but to try. But still there is no evidence that a frog can turn into a prince, and that is roughly what Western Electric is trying to do.

Does Bell Labs have a future?

The third of AT&T's main units and the best known, Bell Telephone Laboratories, poses the most difficult decision. When the Bell System split itself up, top management announced that there would be no change whatever in the role and function of the System's famed Bell Labs. But this, no matter how sincerely intended, is unlikely. Indeed, Bell Labs faces the most radical change in its history and its mission.

However, the antitrust settlement is only a minor factor in this, only the trigger. Bell Labs in its traditional form had actually been increasingly untenable for a long period of time, largely as a result of its own successes and contributions. Bell Laboratories' discoveries and inventions have largely created modern "electronics"; they thereby eliminated the "telephone" as a distinct technology. To do what Bell Labs was founded to do in 1925, and did magnificently for 40 years—that is, to produce *all* the science and technology that a telephone needs—had become literally impossible. No one lab, no matter how good or how big, can possibly do this any more. Everything in electronics, but also in solid state or molecular physics, in metallurgy or in plastics, in crystallography or in computer sciences, and in a host of other disciplines, has a direct and immediate application to telephoning. And conversely, even the world's biggest telephone system is not large enough as an outlet for the discoveries and inventions that come out of Bell Labs. Indeed, in a wide array of areas, from the transistor to fiber optics, and from switching theory to computer logic, the Bell System has been no more adequate as a conduit for Bell Labs' scientific contributions than an eye dropper would be to channel a mountain freshet. The main users have been others—that is, non-telephone industries—with Bell Labs getting little out of its contributions other than an occasional footnote in a scientific paper.

The antitrust suit probably delayed by a decade the tackling of this problem. But now it must be faced. Under the new arrangement Bell Laboratories' expenses can no longer be paid for by the operating companies. They can, of course, contract with Bell Labs for specific work if they so choose, but they no longer have an obligation to contribute. Considering the pressures on the operating companies to hold down costs, the 48 public utility commissions are certain to look with a very skeptical eye on any payment from the operating company in their state to Bell Labs. Bell Labs, in other words, suddenly may have only a fraction of its former economic base.

For several years it had been clear that Bell Labs could go in two directions. It could become a standard industrial lab of a big engineering company, comparable to the labs of GE, RCA or DuPont. This does not necessarily condemn it to mediocrity; the GE lab can match its Nobel Prize winners with any scientific institution in the world. But it is a very different role from that to which Bell Labs has been accustomed.

And then there would be a far bolder, but also far riskier course: to convert Bell Labs into something totally new, a worldwide *scientific* laboratory in telecommunications and electronics, in business for itself, a lab that would aim at making a profit by taking research assignments from whoever is willing to pay for them, by developing its own patents and products to sell and to license, and so on. AT&T would still be the parent company of such a Bell Lab, but otherwise it would be just another client and would be dealt with at arm's length. Nothing like this has ever been done. And no one knows whether it could succeed. But it clearly is the alternative to Bell

Labs' becoming another, though very good, industrial laboratory subordinated to a major manufacturing company.

The Bell System breakup, which deprived it of its financial base in the operating companies, surely tips the balance toward Bell Labs' becoming Western Electric's research and development department. It is hardly coincidence that one of the first organizational changes AT&T made after the breakup of the Bell System on January 1, 1984, was to put Bell Labs into the same organizational group as Western Electric and to subordinate it to the same management.

The risk to defense communications

Almost no one, so far, has publicly even mentioned AT&T's fourth major business: national defense communication. Yet it may be the most important, and the one most severely affected by the breakup of the Bell System.

Communications, everyone agrees, are the nerve system of modern defense. If communications do not function, defense collapses. Communications, everyone further agrees, are the one major area where the U.S. has so far enjoyed unquestionable superiority. Everyone also agrees that an enormous amount of work and effort will be needed simply to maintain our defense communications. For we now know that what we have is highly vulnerable to magnetic fields created by explosions in space. For "defense communications in the U.S.," read AT&T. What gave the U.S. its superiority in defense communications were precisely the features of the Bell System that were abandoned in the antitrust settlement: complete integration of universal-access, local service with universal long distance service; complete compatibility throughout the system under unified central control; and, finally, integration of research on all levels, from pure science to product design and operational application. It was precisely because the antitrust suit challenged these features of the Bell System that the Pentagon strongly protested against it. But in the aftermath of Vietnam, nobody listened. What will happen now that the breakup of the Bell System is an accomplished fact? How much compatibility must there be in the nation's telephone system, in telephone receivers, switchboards and central stations, in long distance circuits and long distance service, in the ability to switch automatically from a damaged circuit to another route, so as to support mobilization, the organization of war production, and the transportation of defense materiel, let alone military command in time of war?

Under the antitrust settlement, defense communications are going to be fragmented. AT&T is bidding on the government's long distance business, but a lot of "discounters," especially MCI, are also trying to get it. So is Bell Atlantic, the regional operating company serving Washington, D.C. There is going to be a host of suppliers offering different kinds of equipment to all government agencies, including the Defense department. And AT&T is altogether forbidden to offer "end to end" services—that is, connections to local telephones—except for a few highly specialized installations at the Department of Defense and the Strategic Air Command.

But surely there is a limit beyond which the fragmentation of our communication system endangers the nation. Pearl Harbor, we now know, happened in large part because a Navy telephone circuit was out of order at the critical time, whilst no interconnection existed to other undamaged circuits. Would we risk similar disaster if we have a number of competing long distance systems rather than one integrated one, and if long distance and local service are separated managerially, technically, and in their equipment?

We may thus soon be faced with the need to re-think the Bell antitrust decision as far as it affects national security. One possibility, and it is being seriously studied in the Pentagon, is for the military to build its own communications system. No one knows how much it would cost, but it would be extremely expensive; one guess is about $100 billion. It would also weaken the civilian telephone system by taking away from it its largest user and the one most willing to try out new technology, and to pay for it.

But there emerged recently, in April 1984, a totally different proposal: to repeal the antitrust settlement with respect to all governmental telecommunications and to turn all of them—local service, long distance, and equipment—back to AT&T. In fact, AT&T has already applied to the Federal Communications Commission for a waiver of the antitrust decree to allow it to submit such a bid to the government. I suspect that the Pentagon will strongly support AT&T; indeed, I suspect that the Pentagon has encouraged AT&T to make this bold move. Whether AT&T's request will be granted is, of course, quite doubtful. There is no precedent in antitrust history for anything so bold and so radical.

AT&T's request would go a long way towards nullifying the antitrust decree's central feature: the absolute separation of long distance from local service. And it would do so with respect to the country's largest single telephone user, the federal government, with a total telephone bill of nearly $2 billion. Above all, what

AT&T is asking is for the government to admit, at least implicitly, that the breakup of the Bell System was a major and potentially disastrous mistake. Not only will all other providers of telephone service—former Bell operating companies, as well as all long distance discounters and equipment manufacturers other than Western Electric—fight AT&T's request, but within the government and in the Congress there will also be enormous opposition.

Still, it might be the only solution. And if AT&T's request for a waiver is not granted, we will sooner or later have to tackle the question of defense communications—and probably sooner. Some thoughtful people I know in the military, who are by no means alarmists, think the question might come up well before the end of the next presidential term.

The achievements—and problems—of regulated monopolies

The AT&T suit was by far the biggest antitrust action ever taken, and not only because AT&T was the country's biggest nongovernmental enterprise. It also had far more dramatic results than any previous antitrust suit ever aimed at or achieved. What, then, are its lessons for regulation and for antitrust—two pivotal American institutions—both, by the way, almost exact contemporaries of the Bell Telephone System?

The regulated monopoly was one of America's most innovative and most successful contributions to the art of government. In one simple concept it solved what had seemed an insoluble dilemma: either to leave a "natural monopoly" to "free enterprise" and thereby give it a license to extort, or to nationalize it and thereby condemn it to almost certain bureaucratic arrogance, high costs and inefficiency. Without exception, America's regulated monopolies have given better service and have done better than nationalized counterparts in the rest of the developed world. The Bell Telephone System was, of course, the premier example, giving the country the world's finest telephone service at rates up to 50 percent below those of any other industrialized country. American electric utility costs, too, are almost everywhere lower than those of electric utilities elsewhere with comparable energy sources (for example, coal, oil, or water power).

But even a "regulated monopoly" can become dysfunctional. As soon as there is any competition, as soon as there is an alternative way of producing the same consumer satisfaction or of filling the same consumer want, regulation becomes counterproductive. It no longer "regulates" but it still forbids and stifles. It can no longer protect its industry and maintain its monopoly. But it can, and will, make it difficult for its industry to compete, to modernize itself, to meet the new threat. Yet there is no mechanism for abolishing outmoded regulation.

What then happens is messy, capricious, expensive, and bound to hurt a good many people, innocent bystanders included. The outcome is unpredictable and quite unlikely to be what is most rational and most in the national interest. In some cases we have left things to blind chance. One example is what is now happening in financial services. It bears not the slightest resemblance to what anyone would have foreseen or advocated when it first became apparent 20 years ago that our financial rules, demarcation lines, and regulations would rapidly become obsolete and meaningless. But with respect to the railroads, the outcome—equally left to chance—is quite different. What is now emerging, after 30 years of turmoil—and without the repeal of a single ordinance, rule, or regulation, is a system of five or so major national, if not transcontinental, railroads. That is almost exactly what a long-dead ICC Commissioner, Joseph Eastman, proposed almost 60 years ago when it first became apparent that cars and trucks were nibbling away at the railroad's monopoly on land transportation. Other industries—airlines and trucking, for instance—have been "deregulated" with the major result of forcing their workers' wages down. And with respect to the telephone, we used an antitrust suit with results that no one can foresee as yet, but which almost certainly will not be what anyone—Bell System executive, antitrust lawyer, or disinterested outsider—would have foreseen, planned for, or aimed at.

Is there a better method? The answer is probably "no." An old idea, a "sunset law" under which regulatory statutes expire every so often and have to be re-enacted—say, every 30 years—is most unlikely to work. Every regulation creates its own constituencies. Regulation has to be undermined *de facto*; *de jure* it is likely to continue long after the reality of regulated monopoly has disappeared, whether through the emergence of cars and trucks, through that of charter planes, through Citicorp becoming in effect a truly "national" bank, or through discounters offering long distance telephone service at cut rates. Indeed, the one probable result of "sunset laws" is to tighten regulation just when economic and technological reality abolishes the "natural monopoly." The only consolation may be that liquidating an obsolescent government monopoly is likely to be even messier, costlier, less predictable. (Witness the vicissitudes of the U.S. Post Office, beset on one side by electronic mail and on the other by private express services. Or examine the Japanese National Railroads, which are not allowed to do anything at all by their political and trade-union bosses, but which have already lost all their freight traffic and are now rapidly losing their passenger traffic as well, while unsubsidized private railroads paralleling the tracks of the national system run full trains to the same destinations, charge half the fare the national system charges, and make money into the bargain!)

Antitrust moralism

Antitrust, too, was an American contribution to the art of government, but a far more debatable one. It may come as a surprise to laymen to learn that most American economists have never had much to say for the antitrust laws. They consider such laws morality rather than economics. One reason is that economists, by and large, are not terribly frightened by non-governmental, that is, business monopolies. Ever since a German economist, Robert Liefmann, published his comprehensive study of business monopolies (*Die Kartelle*) in 1906, economists have known that business (that is, non-governmental) monopolies are short-lived. All they do, as a rule, is provide an umbrella of high prices under which competitors then grow fast and risklessly. Thus, Rockefeller's Standard Oil Trust held an umbrella of high prices over the newcomers—Texaco, Gulf, Shell—80 years ago. And the Bell System held an umbrella of high long distance rates over such discounters as MCI and Sprint. The only exceptions are what Joseph Schumpeter (1883-1950) called "intelligent monopolists," that is, monopolies that maintain their leadership position by cutting their own prices before competition does, and faster than competition can do it, and which themselves make their products obsolete before the competition does. Schumpeter's example was the Bell Telephone System—and that was, of course, the foundation for Bell's strength until it ran into the inflation of the late 1960s and 1970s. Another example would be IBM today. "Intelligent monopolies" may indeed last a long time, but of course the "intelligent monopoly" uses its economic power to benefit the consumer rather than to extort from him.

There is an even more important reason, however, for the jaundiced view most American economists take of antitrust: They see no results. Or rather they see only wrong results which are almost the opposite of what antitrust promises. In terms of concentration of economic power, the American economy, despite antitrust, differs very little—and certainly not in statistically significant magnitudes—

from any other economy in a similar stage of development, even though most of these others have had no antitrust laws and have certainly not enforced those they have had. Indeed, it is pretty obvious that concentration is determined by technology and market forces rather than by law, and is pretty much the same in the same industries across all boundaries. But as a result of antitrust, economic concentration and combination in this country have taken peculiar forms, and not necessarily the most benign ones. Antitrust has enormously encouraged mergers. For under the antitrust laws, units within the same legal entity are considered "one business" and are basically exempt from antitrust with respect to their dealing with one another. In other countries, however, there is the "group" rather than the merger. In the "group," the individual units maintain their independence and indentity though tied to each other through stock holdings (usually minority holdings, by the way). Antitrust would, however, consider the "group," composed as it is of independent legal entities, a clear violation; as a result, antitrust has greatly favored the disappearance of autonomous, self-governing and smaller enterprises in favor of the behemoth. And then because antitrust frowns on concentrations of economic power in the same markets, it has virtually forced American companies to grow by forming "conglomerates" without organic or business unity (for example, ITT's telephone equipment businesses adding to themselves a bakery and an insurance company). Few economists would consider the "merger" preferable to the "group," or the "conglomerate" preferable to either.

This will not, of course, impress antitrusters in the least. That economic concentration in this country, despite its antitrust laws, is no lower than among the "heathen" proves only two things: the antitrust laws have to be enforced much more strictly, and the Evil is even more powerful, more wicked, and more devious than anyone could imagine. To economists, laws like antitrust are hygiene. To the true antitrust believer, they are morality. And morality—at least in the United States—always has a great deal more appeal than something so pedestrian as hygiene. Most American economists would agree that even repealing the antitrust laws in their entirety, let alone their "monopoly" provisions, would not cause great harm to the American economy. The offenses that need to be forbidden —price fixing, discriminatory pricing, discriminatory rebates—are adequately covered by common law, after all, and are adequately dealt with in countries that are totally innocent of antitrust legislation. Still, antitrust is sacred. A proposal to repeal the bans on "concentration" and "monopoly" would have about as much chance of success as a proposal to close all law schools for the next 30 years.

The social costs of antitrust

But still, the AT&T suit has shown that some reforms should at least be seriously considered. The first one might be to introduce into antitrust the overwhelming consensus among American economists as to what is "analysis" and what is "policy." "All economists," an oft-quoted saying goes, "agree that the only purpose of economic activity and its touchstone is the consumer. Anyone who believes that the purpose is anything else (employment, for example) is not an economist." Not quite true, but it will do.[2]

For the great majority of American economists, and of economists anywhere, this only applies to *economic analysis* and not to *economic policy*. But for a tiny minority—George Stigler in Chicago and his disciples—it applies to both. To some considerable extent their influence has been wholesome. Stigler's insistence that in economic analysis nothing else be considered but strictly economic factors is a badly needed antidote to the sloppiness that prevails in arguments about economic policy. It is indeed highly desirable, as Stigler has demanded for years, that policy makers start out with the knowledge of the purely economic facts so that they face up to the costs of any deviation therefrom in the policy they then choose.

But his disciples go much further. They demand that no deviation from the pure economic analysis be allowed in *deciding* on economic policy.[3] And Stigler's disciples control antitrust. To consider anything else—impact on foreign policy or on defense, social consequences, anything—is "impure" if not prostitution. For the antitrust economist, the benefit to an abstract "consumer" is the only consideration. The Chicago economists, for instance, refused to accept as relevant the argument that a Bell System breakup would inevitably mean higher rates for the poor and lower rates for business; the only thing they allowed was the total impact on all consumers, that is, the total national telephone bill. For, as the group argues, any concession, any deviation is the first step down the slippery slope. It is "playing politics with the law." To the great majority of American economists, this is virtue carried to the point of madness.

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[2] An important minority has held for nearly 200 years that the purpose is production rather than consumption, and economic development rather than equilibrium. In origin this is *American* economic theory, indeed, the only major important economic theory ever to come out of the U.S. It was first formulated by Alexander Hamilton, then taken up by Henry Clay as the "American System." Friedrich List took it from America to Germany in the 1830s, where it became the foundation for Germany's industrial development into a major economic power. The one major contemporary economist who adhered to it was Joseph Schumpeter (1883-1950). The most consistent practitioners today are, of course, the Japanese.

[3] The best presentations of this point of view are the papers of the Chicago economists who prepared the AT&T antitrust suit for the Justice Department. They are collected in *Breaking Up Bell: Essays in Industrial Organisation and Regulation*, edited by David S. Evans. (New York: North Holland, 1983).

For antitrust *is* politics. The Reagan administration declared last winter, in connection with an antitrust ban on a proposed merger between two very large steel companies, that "it does not allow politics to enter antitrust; it is entirely a matter of the law." This is sanctimonious twaddle, and disingenuous to boot. A major antitrust suit is, of necessity, a highly political matter—and the way it is settled even more so. The suit against AT&T, for instance, would hardly have been brought had inflation not eroded the company's political support to the point at which it became politically vulnerable. And the whole point of the steel merger decision was political: whether it is politically preferable to allow major steel companies to merge rather than to impose import restrictions on steel from Europe and thereby to risk a trade war with the Common Market. And, indeed, no sooner had the White House officially declared that it had nothing to do with the steel-mergers case than antitrust reversed itself and allowed the merger. It is simply not true, as the antitrust economists maintain, that there exists no reasonably rigorous and objective theory to consider extra-economic factors in an economic-policy decision. That theory has been in existence for 50 years now, in the "welfare economics" of Arthur Cecil Pigou. What "welfare economics" does is determine, with considerable precision, the economic costs of "trade-offs" from the purely economic, purely consumer-focused result of economic analysis. How much would it mean in additional costs if, for example, long distance rates were maintained at a higher than strictly economic level to provide subsidies for minimum local service? How much would it cost in economic terms to make this or that social or political concession? What, in other words, are the *economic* costs of a given policy? Policy, by definition, can never be just one thing—that is, social or economic or military—it always has many dimensions. Who loses, who benefits, and by how much?

But the antitrust economists are quite right: The answers to these questions are not really to be found in the law any more than are the settlement terms for an antitrust decree. What is therefore needed (and, by the way, most judges would agree) is to divorce analysis from policy in major antitrust suits as we routinely do in so many other areas. Legal and economic analysis should govern until a company or an industry is found in violation. But then a panel of high-level experts—maybe one nominated by the prosecution, one nominated by the defense, one a public member (or a panel appointed by the Council of Economic Advisors)—would work on the "trade-offs," the "welfare economics." The panel should probably be limited in its considerations to a fairly small number of issues: major social impact; major economic impacts such as those on productivity, capital formation, and employment; the impact on America's competitive position in the world economy and on America's technological leadership; the impact on national security. In the AT&T case, such a panel would surely have recommended continuing financial support of the Bell Labs by the operating companies. And it might also have forced us to face the problem of defense communications. The panel should advise rather than arbitrate, the judge making the final decision. But the judge needs advice; nothing in a judge's background or career qualifies him in these matters. They are also matters which can only be mismanaged if handled in adversary proceedings.

Of course any such reform, or anything even remotely like it, is in the future. But it may not be a very distant future. If the Bell breakup works out and if ten years hence the U.S. still has telecommunications leadership, well and good. But if, as is quite likely, the ten years after the antitrust liquidation of AT&T's "natural monopoly" bring more gadgets but otherwise only increased costs, damaged technological leadership, and compromised national security, we may then be ready to reconsider.

APPENDIX G.—FEDERAL-STATE JOINT BOARD RECOMMENDATIONS TO FEDERAL COMMUNICATIONS COMMISSION

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Report No: November 15, 1984

ACTION IN DOCKET CASE

JOINT BOARD MAKES RECOMMENDATIONS ON SUBSCRIBER LINE CHARGES, HIGH COST ASSISTANCE AND MEASURES TO ASSIST LOW INCOME HOUSEHOLDS

(CC Docket No. 78-72; CC Docket No. 80-286)

The Federal-State Joint Board (composed of four state and three FCC Commissioners) adopted recommendations today concerning: (1) the use of subscriber line charges as a means of recovering the interstate allocation of non-traffic sensitive (NTS) local exchange costs; (2) modifications to the previously adopted measures for assisting subscribers in areas where the cost of providing telephone service is unusually high; and (3) measures designed to assist low income households afford telephone service.

The Commission is expected to act on the Joint Board's recommendations in December. The Joint Board action was in response to the Commission's April 1984 request for preparation of a Joint Board recommendation on these issues.

In general terms, the Joint Board recommended that the Commission: (1) implement limited subscriber line charges for residential and single line business customers; (2) allow local companies flexibility to file alternative interstate tariffs for the recovery of carrier common line costs in order to combat bypass; and (3) modify the provisions for high cost assistance to direct more aid to smaller companies and those with higher cost levels.

The Joint Board recommended implementation of a $1.00 per month subscriber line charge for residential and single line business customers effective June 1985. It recommended that this charge be increased to $2.00 per month in June 1986. The Joint Board also recommended that subscriber line charges for embedded Centrex/CO lines (those in service or on order before July 27, 1983) remain at $2.00 per month pending further recommendations from the Joint Board. The Joint Board also urged the Commission to allow individual states or companies to file proposals for experimental tariffs to recover NTS costs with the Joint Board.

In addition, the Joint Board recommended that local telephone companies, with the concurrence of state regulatory officials or the Joint Board, be given flexibility to implement optional alternative interstate tariffs for recovery of carrier common line costs in order to combat localized bypass problems. A maximum $.35 monthly surcharge on the subscriber line charge for all subscribers in the study area would be allowed to fund any discount contained in the optional alternative tariffs. The Joint Board will request comments on the mechanics for implementing these alternative tariffs. The procedures which the Joint Board proposed for implementation of these alternative tariffs will ensure that they do not undermine the nationwide averaging of NTS costs for purposes of the carrier common line charge.

The Joint Board recommended that the basic subscriber line charge for residential and single line business customers be frozen at $2.00 per month after June 1986. It recommended further Joint Board proceedings to examine the effect of subscriber line charges and the special anti-bypass tariffs on universal service, bypass, economic efficiency, and interexchange competition. This proceeding is to be instituted in late 1986 and completed as soon as possible, consistent with the need for development of an adequate record.

The Joint Board emphasized that it did not expect implementation of limited subscriber line charges to harm universal service. However, out of an abundance of caution it recommended measures to offset the effect of the subscriber line charge on low income subscribers. The Joint Board recommended an optional program (the decision on participation to be left to the states) for a 50 percent reduction in the subscriber line charge for customers meeting a state established means test subject to verification. This revenue shortfall would be funded through the interstate carrier common line charge. States taking advantage of this assistance mechanism would be required to make an equal monetary reduction in the local exchange rate for subscribers who qualify for the subscriber line charge reduction. Implementation of assistance measures would be at the option of the state commissions. The Joint Board also recommended further study of broader lifeline assistance measures on an expedited basis. It is anticipated that the state developed means tests for the reduced subscriber line charge will assist us in developing broader lifeline measures in the near future.

The Joint Board found that implementation of subscriber line charges in the amounts outlined above would best serve the Commission's goals of (1) eliminating unreasonable discrimination and undue preferences among the rates for interstate services; (2) promoting efficient use of the local network; (3) preventing uneconomic bypass; and (4) preserving universal service.

The Joint Board found that flat rate recovery of a portion of the interstate costs of switched local loops would promote economically efficient use of the local telephone network, and allow major reductions in the carrier common line charge. It stated that this would substantially reduce the incentive for the interexchange carriers and high volume toll users to bypass the local exchange and allow significant toll rate reductions. The Joint Board recommended that the full amount of the reduction in the carrier common line charge be flowed through in reduced interstate toll rates. The additional provisions allowing local companies (with the approval of their state commissions or the Joint Board) to file optional alternative tariffs for recovery of interstate carrier common line costs will also contribute substantially to reducing localized bypass problems which the across-the-board reduction in the carrier common line charge cannot prevent.

The Joint Board stated that limiting the basic subscriber line charge to $2.00 per month pending reevaluation will ensure that implementation of subscriber line charges for residential and single line business customers will not undermine universal service. The Joint Board recognized that a $1.00 or $2.00 monthly subscriber line charge, by itself, is unlikely to have an adverse effect on the affordability of telephone service. However, it stated that it was concerned that recovery of additional NTS costs through subscriber line charges, in conjunction with other federal actions such as more rapid depreciation of telephone company plant, recent separations changes and the general upward pressure on local telephone rates due to increased costs, could undermine universal service.

The Joint Board emphasized that subscriber line charges represent a major change in the way the interstate allocation of NTS local exchange costs have been recovered. It concluded that such changes must be implemented gradually, subject to careful reevaluation before increases are allowed. The Joint Board stated that only a complete reexamination of these issues in light of actual experience will allow a sound determination of whether the basic subscriber line charge for these customers should ever be increased beyond $2.00 per month.

The Joint Board found that gradual implementation of a $2.00 flat charge for residential and single line business subscribers is in the long term public interest. However, the Joint Board recommended a number of changes in the Commission's existing plan designed to reflect concepts underlying the major alternative NTS cost recovery mechanisms proposed in the comments. These alternatives include: (1) the St. Louis plan for unified state and interstate access charge tariffs to be filed with the state commissions; (2) reductions in the interstate allocation of NTS local exchange costs; (3) restructuring interstate toll rates to reflect volume discounts for large users; and (4) restructuring access charges to reflect volume discounts or modifying the access charge rate structure to reduce the impetus for bypass.

While the Joint Board stated that it did not believe that any of these alternatives, by themselves, represented an immediately workable means of recovering interstate NTS costs in a manner consistent with the Commission's basic goals, each of these alternative approaches reflects important underlying concerns that should be dealt with in any plan for recovering interstate NTS costs. It stated that its recommendations represented a means of dealing with these concerns within a system of subscriber line charges.

The Joint Board also recommended a number of changes in the method of calculating the amount of high cost assistance for local telephone companies. It concluded that the high cost assistance should continue to be based primarily on NTS loop costs, rather than other factors such as the cost of living. The changes are designed to direct more assistance to small telephone companies and those with higher cost levels.

The existing level of assistance would be maintained in the initial cost band for smaller companies. The Joint Board recommended an increased level of assistance for all companies to the extent their costs exceed 150 percent of the national average. However, under this approach, companies with more than 50,000 working loops and costs below 150 percent of the national average would receive less assistance than under the provisions previously adopted by the Commission.

The Joint Board recommended that the local exchange companies' authorized rate of return for interstate access service, now 12.75 percent, be used in calculating the level of high cost assistance. It also recommended that existing study area boundaries continue to be used for separations purposes including calculation of the level of high cost assistance. In addition, it concluded that the transition from a SPF based interstate NTS cost allocation to the new 25 percent basic allocation factor (combined with high cost assistance), should be implemented in eight annual steps rather than four as currently provided in Part 67 of the Commission's Rules.

It also recommended continued use of frozen SPF as the allocation factor for NTS Category 6 Central Office Equipment (COE), Local Dial Switching Equipment, pending a comprehensive review of all COE separations issues. As a result, the Joint Board found that NTS Category 6 COE should not be included in determining the level of high cost assistance.

The Joint Board stated that the changes involving the rate of return and study area definition will continue long-standing industry practices. This will ensure that the degree of change experienced by small companies remains manageable. The Joint Board stated that these measures will have a relatively small impact on the size of the total high cost fund. It stated that its recommendations concerning Category 6 NTS COE were also designed to maintain the status quo pending further study. The Joint Board stated that extending the transition period will ease the burden on companies which will experience significant reductions in their interstate cost allocation as a result of the move from SPF to the new allocation method.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
MTS and WATS Market Structure	)	CC Docket No. 78-72
	)	
Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board	)	CC Docket No. 80-286

RECOMMENDED DECISION AND ORDER

Adopted: November 15, 1984; Released November 23, 1984

By the Federal-State Joint Board:

I. Introduction

A. Summary of Recommended Decision

1. The Federal-State Joint Board hereby presents its recommendations concerning: (1) the use of subscriber line charges as a means of recovering the interstate allocation of non-traffic sensitive (NTS) local exchange costs; (2) modifications to the previously adopted measures for assisting subscribers in areas where the cost of providing telephone service is unusually high; and (3) measures to assist low income households in affording telephone service. The first section of this Order summarizes our recommendations and reviews developments in these proceedings to date. The second section deals with subscriber line charges as a means of recovering the NTS local exchange costs allocated to the interstate jurisdiction. The third section concerns provisions for assisting subscribers in high cost areas. Recommendations designed to ensure that implementation of subscriber line charges does not adversely affect the ability of low income households to afford telephone service are discussed in the fourth section of the Order.

2. In general terms, we recommend that the Commission: (1) implement limited subscriber line charges for residential and single line business customers; (2) allow local companies flexibility to file optional alternative interstate tariff provisions for the recovery of carrier common line costs in order to combat bypass; (3) modify the provisions for high cost assistance to direct more aid to smaller companies and those with higher cost levels; and (4) provide the equivalent of a waiver of

residential subscriber line charges under specific terms and conditions.[1] More specifically, we recommend implementation of a $1.00 per month subscriber line charge for residential and single line business customers effective June 1985. This charge will be increased to $2.00 per month in June 1986. In addition, local telephone companies, with the concurrence of state regulatory officials,[2] should be given flexibility to implement optional alternative interstate tariff provisions for recovery of carrier common line costs[3] in order to combat localized bypass problems. A uniform monthly surcharge up to a maximum of $.35 on the subscriber line charge for all customers would be allowed to fund any revenue shortfall resulting from the optional alternative tariffs.[4] The procedures which we are proposing for implementation of these alternative tariff provisions will ensure that they do not undermine the nationwide averaging of NTS costs for purposes of the carrier common line charge. We also a recommend that the basic subscriber line charge for residential and single line business customers be frozen at $2.00 per month.[5] We recommend a further Joint

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[1] The Joint Board also recommends further study of broader lifeline assistance measures on an expedited basis.

[2] In the absence of state commission concurrence, the local companies would be authorized to go forward with an alternative tariff filing with the FCC only if the Joint Board concurred in the plan. We recommend that the local companies be allowed to seek Joint Board concurrence if the state does not act on the proposal within 60 days of the filing. The state would remain free to act on the company's proposal prior to a Joint Board decision.

[3] Under Part 69 of the Commission's rules, the carrier and subscriber common line elements together cover the cost of customer premises equipment, inside wiring, local loops, the Universal Service Fund and the National Exchange Carrier Association's operating expenses.

[4] For example, some of these optional alternative tariff provisions may take the form of volume discounts. To the extent that these tariff provisions fail to generate the same revenue levels as application of the nationwide averaged carrier common line charge, the revenue shortfall will be recovered through a uniform surcharge of no more than $.35 per month on the suscriber line charge for all customers in the relevant study area. For further discussion of the alternative carrier common line tariff provisions see paragraphs 36 through 41.

[5] This does not include any subscriber line surcharge that would be necessary in conjunction with optional alternative tariff provisions to recover carrier common line costs. To the extent a surcharge is necessary,

Board proceeding to examine the effect of subscriber line charges and the special anti-bypass tariffs on universal service, bypass, economic efficiency, and interexchange competition. This proceeding should be instituted in late 1986 and completed as soon as possible, consistent with the need for development of an adequate record. The purpose of this proceeding would be to recommend what, if any, further steps should be taken by the FCC.

3. We are also recommending a number of changes in the method of calculating the amount of high cost assistance for local telephone companies. We believe that the high cost assistance should continue to be based on NTS loop costs, rather than other factors.[6] The changes we recommend are designed to direct more assistance to small telephone companies and those with higher cost levels. Under this approach, companies with more than 50,000 working loops and costs below 150 percent of the national average would receive less assistance than under the provisions previously adopted by the Commission.[7] We recommend that the local

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it would be in addition to the $2.00 basic charge.

[6] We recommend that the cost of NTS Category 6 Central Office Equipment (COE), Local Dial Switching Equipment, continue to be allocated to the interstate jurisdiction on the basis of the frozen Subscriber Plant Factor (SPF) pending review of all issues concerning the allocation of COE. In light of the continued use of SPF, NTS Category 6 COE costs should not be included in calculating the level of high cost assistance.

[7] Under our proposal, assistance to subscribers in high cost areas would continue to be provided through an interstate allocation of the relevant local loop costs in addition to the basic 25 percent interstate allocation. We recommend that the additional interstate allocation for study areas with less than 50,000 working loops (excluding WATS and private line loops) include: (1) 50 percent of the relevant cost per loop in excess of 115 percent but not greater than 150 percent of the national average for these costs; and (2) 75 percent of the relevant cost per loop in excess of 150 percent of the national average. We recommend that the additional interstate cost allocation for study areas with more than 50,000 working loops (excluding WATS and private line loops) include: (1) 25 percent of the relevant cost per loop in excess of 115 percent but not greater than 150 percent of the national average for these costs; and (2) 75 percent of the relevant cost per loop in excess of 150 percent of the national average. Under this approach all relevant NTS costs in excess of 150 percent of the national average would be allocated to the interstate jurisdiction. (Twenty five percent of these costs would be allocated to interstate through the basic allocation factor. An additional 75 percent would be allocated to interstate through the high cost formula.)

exchange companies' authorized rate of return for interstate access service, now 12.75 percent, be used in calculating the level of high cost assistance. We also recommend that existing study area boundaries continue to be used for separations purposes including calculation of the level of high cost assistance. In addition, we conclude that the transition from a SPF based interstate NTS cost allocation to the new 25 percent basic allocation factor (combined with high cost assistance), should be implemented in eight annual steps rather than four as currently provided in Part 67 of the Commission's rules.

4. In addition, we recommend that the Commission adopt a two phase program for assistance to low income households. The first step would offset the effect of subscriber line charges. We recommend an optional program for a 50 percent reduction in the subscriber line charge for customers meeting a state established means test subject to verification. This revenue shortfall would be funded through the interstate carrier common line charge. States taking advantage of this assistance mechanism would be required to make an equal monetary reduction in the local exchange rate for subscribers who qualify for the subscriber line charge reduction. This reduction in local rates would be funded from intrastate sources. Implementation of this assistance measure would be at the option of the state commissions. We also recommend expedited study of broader lifeline assistance measures as the second phase of our plan. It is anticipated that the state developed means tests for the reduced subscriber line charge will assist us in developing broader lifeline measures in the near future.

B. Background

1. MTS and WATS Market Structure Proceeding

5. On December 22, 1982, the Commission adopted the *Third Report and Order* in the *MTS and WATS Market Structure* proceeding, CC Docket No. 78-72.[8] This *Order* established a plan for replacing the interstate division of revenues and settlements process with a system of tariffed access charges. Under this approach, a major portion of the local loop costs allocated to the interstate jurisdiction[9] would have been recovered

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[8] 93 FCC 2d 241 (1983).

[9] A portion of local telephone company plant investment and expenses is allocated to the interstate jurisdiction and recovered through the rates for interstate services. The remainder of these costs are allocated to the state jurisdiction and recovered through the charges for local exchange and

directly from telephone subscribers.[10] Other NTS costs allocated to the interstate jurisdiction would have been recovered from the interexchange carriers and reflected in their toll rates.[11] These rules were modified in the Commission's Memorandum Opinion and Order (Reconsideration Order) in the MTS and WATS Market Structure proceeding adopted July 27, 1983.[12] The revised rules established a uniform initial subscriber line charge of $2.00 per month for residential customers in 1984. That charge was scheduled to increase to $3.00 in 1985 and $4.00 in 1986. The revised rules also provided for a subscriber line charge for business customers equal to the lesser of $6.00 per month or the full interstate allocation of loop costs for the study area involved. The revised rules also contained provisions for calculating residential subscriber line charges for 1987 and beyond.

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other intrastate services. Local telephone company costs are allocated between the two jurisdictions because local facilities are used for the origination and termination of interstate as well as intrastate telephone services. The procedures for allocating these costs between the jurisdictions are set out in Part 67 of the Commission's rules.

[10] The Commission's initial decision provided that, in 1984, the first year of the plan, local telephone companies would have to charge a minimum flat fee of $2.00 per line per month for residential subscribers and $4.00 per line per month for business subscribers. Additional NTS costs could be recovered from subscribers through usage charges, up to a maximum fee equivalent to the local telephone company's rate for a dedicated interstate private line. Aside from the pre-set minimum and maximum charges, local companies were given a great deal of flexibility to experiment with combinations of flat and usage based charges. Two major changes in the plan were scheduled to be phased in over a transition period. First, all of the NTS costs associated with subscriber loop plant and station connections, other than inside wiring, and the universal service fund amount, would gradually be shifted to a subscriber charge. (The costs of CPE, which are being phased out, as well as inside wire and NTS Category 6 Local Dial Switching Equipment would not be shifted to the subscriber charge.) Second, subscriber charges, which would initially be structured as a combination of minimum flat fees and usage sensitive charges, would gradually be converted to exclusively flat fees for most carriers.

[11] In the past, all local exchange telephone company costs allocated to the interstate jurisdiction were paid by the interexchange carriers and reflected in their rates to the public.

[12] FCC 83-356, released August 22, 1983, 48 Fed. Reg. 42984 (September 21, 1983).

6. In a subsequent Memorandum Opinion and Order (Second Reconsideration Order), adopted February 3, 1984, the Commission reaffirmed its conclusion that a system of flat subscriber line charges to recover a portion of the interstate NTS cost allocation would best serve the public interest.[13] In particular, the Commission reiterated that a system of fixed subscriber line charges would:

> (1) Eliminate the discrimination or preferences that result from the inconsistent methods that have been used to recover interstate subscriber loop and private line loop costs;
>
> (2) Promote economic efficiency by eliminating the distortions that inevitably result from the recovery of fixed costs through usage charges;...
>
> (3) Deter uneconomic bypass by removing the incentive for large users to substitute bypass facilities that may be more costly than the local distribution facilities of the telephone companies; [and]
>
> (4) Preserve universal telephone service by avoiding rate increases for remaining telephone company customers that would result from uneconomic bypass.[14]

The Commission also emphasized that the access charge plan represented an effort to preserve the opportunity for fair competition during the transition to a new environment in which all interexchange competitors would be offered equal interconnection options.

7. In the Second Reconsideration Order, the Commission proceeded with implementation of a maximum $6.00 monthly charge for multi-line business customers.[15] The Commission deferred implementation of subscriber

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[13] FCC 84-36, released February 15, 1984, 49 Fed. Reg. 7810 (March 2, 1984).

[14] Id. at para. 6.

[15] The maximum $6.00 monthly charge applied to Centrex lines ordered after July 27, 1983. A $2.00 monthly charge was authorized for embedded Centrex lines (those ordered or in place on or before July 27, 1983). The Commission also stated that it would reexamine transitional end user charges for all customers, but did not expect charges for embedded Centrex lines to exceed $3.00 per month in the 1985 and 1986 access period.

line charges for residential and single line business customers until June 1985, and capped such charges for these subscribers at $4.00 through the end of 1989. The Commission stated that it would complete the following five additional proceedings before it allowed subscriber line charges to become effective for residential and single line business customers: (1) a further rulemaking to devise exemptions or targeted assistance for subscribers who may not be able to afford subscriber line charges; (2) a further inquiry into the effects upon universal service of subscriber line charges as well as federal decisions in general; (3) a further inquiry to compile more detailed data upon the extent and dangers of bypass; (4) a further rulemaking to adopt more effective mechanisms to meet the needs of small telephone companies for additional assistance; and (5) a further rulemaking to examine how best to implement subscriber line charges for residential and single line business customers.

2. Jurisdictional Separations Proceeding

8. During the period covered by these orders in the MTS and WATS Market Structure proceeding, the Joint Board was reexamining the procedures governing the allocation of local exchange plant investment between the state and interstate jurisdictions in Amendment of Part 67 of the Commission's Rules, CC Docket No. 80-286.[16] In the Second Recommended Decision and Order[17] in this proceeding, adopted on April 15, 1983, we

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[16] This proceeding was instituted in July 1980 pursuant to Section 410(c) of the Communications Act of 1934, as amended, 47 U.S.C. §410(c). Notice of Proposed Rulemaking and Order Establishing a Joint Board, 78 FCC 2d 837 (1980).

[17] CC Docket No. 80-286, 48 Fed. Reg. 46556 (October 13, 1983). The Joint Board had previously recommended that customer premises equipment (CPE) be phased out of the separations process over a five year period in light of the Commission's decision in Docket No. 20828, Amendment of Section 64.702 of the Commission's Rules, to detariff CPE. Recommended Decision and Order, CC Docket No. 80-286, FCC 81-566, released December 14, 1981, 46 Fed. Reg. 63344 (December 31, 1981). At that time, the Joint Board also recommended that the Commission freeze SPF at the 1981 annual average level for each study area to prevent further growth in the interstate NTS cost allocation pending adoption of new separations procedures. Recommended Interim Order, CC Docket No. 80-286, FCC 81-565, released December 14, 1981, 46 Fed. Reg. 63354 (December 31, 1981). The Commission adopted both the CPE phase out plan and the interim SPF freeze with a number of technical modifications. Decision and Order, CC Docket No. 80-286, 89 FCC 2d 1 (1982), reconsideration denied, 91 FCC 2d 558 (1982), appeals pending sub nom. MCI Telecommunications Corp. v. FCC, D.C. Cir. Nos. 82-1237, 82-1456 (filed March 4, 1982 and April 23, 1982).

recommended: (1) a basic 25 percent interstate allocation factor for local exchange loops (other than wideband loops and loops subject to direct assignment to one jurisdiction or the other) and inside wiring as well as the associated maintenance and depreciation expenses; (2) an additional interstate cost allocation for study areas with relevant loop costs in excess of 115 percent of the national average;[18] and (3) a number of other changes in the allocation of local exchange plant costs. The Joint Board also recommended that implementation of the new basic allocation factor supplemented with high cost assistance take place in four steps beginning in 1986. The Commission adopted the Joint Board's recommendations with a number of changes and clarifications.[19]

9. The Commission subsequently asked the Joint Board to prepare recommendations concerning a number of issues[20] related to the recovery of NTS costs.[21] These issues included: (1) the subscriber line charge for

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[18] The Joint Board also recommended provisions designed to cap subscriber line charges (for high cost areas) at twice the national average charge. The Commission endorsed this in concept, but concluded that it should be incorporated in Part 69, the access charge rules, rather than Part 67 dealing with jurisdictional separations. As previously mentioned, the Commission subsequently decided to cap subscriber line charges for residential and single line business customers at $4.00 per month through the end of 1989.

[19] *Decision and Order*, *Amendment of Part 67 of the Commission's Rules*, CC Docket No. 80-286, 96 FCC 2d 781 (1984). The most significant of these changes included: (1) inclusion of drop and block wire and Category 8.13, Subscriber Line Circuit Equipment, in the plant categories considered in determining whether a study area qualifies for high cost assistance; (2) advancing the date for the initial high cost data filing with the National Exchange Carrier Association (NECA) from June 1985 to June 1984; and (3) continuation of the existing separations treatment of WATS closed end access lines pending further recommendations by the Joint Board. The Joint Board modified its original recommendation to request the first two changes. *Id.* at para. 5.

[20] Since these issues do not involve the allocation of costs between the jurisdictions, preparation of a Joint Board recommendation is not mandatory. *See* Section 410 of the Communications Act, as amended, 47 U.S.C. §410.

[21] *Further Notice of Proposed Rulemaking*, *MTS and WATS Market Structure* and *Amendment of Part 67 of the Commission's Rules*, CC Docket Nos. 78-72 and 80-286, FCC 84-133, released April 11, 1984, 49 Fed. Reg. 18318 (April 30, 1984).

residential and single line business customers; (2) the transition mechanism for implementing subscriber line charges for these customers; (3) an exemption from the subscriber line charge or other assistance for low income households; and (4) additional assistance for small telephone companies.[22]

10. In seeking additional comments on these issues the Commission recognized that subscriber line charges represent a major change in the way the interstate allocation of local exchange telephone company costs are recovered, and stated that "it is important to compile as complete a record as possible concerning end user access charges for residential and single line business subscribers."[23] At the same time, the Commission noted the extensive record already compiled in CC Docket No. 78-72 and added:

> Based on the substantial record in this proceeding, we are convinced that a significant reduction in the level of toll loading is necessary to ensure the long term viability of the telephone network and best serve the four basic goals which we have established in this proceeding, namely: (1) the continued assurance of universal service; (2) the elimination of unjust discrimination or unlawful preferential rates; (3) the encouragement of network efficiency; and (4) the prevention of uneconomic bypass. We have already reached a number of basic conclusions. First, bypass and the economic inefficiency inherent in the present system of toll rates represents a serious long term threat to universal service. Second, the emergence of competition in the telecommunications industry requires that charges more fully reflect the cost of service. Third, a nationwide solution to these problems

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[22] The Commission also instituted studies concerning bypass of the local exchange and the effect of federal decisions on universal service. Public Notice, "Request for Data, Information, and Studies Pertaining to Bypass of the Public Switched Network," Mimeo No. 3206, released March 28, 1984; Public Notice, "Commission Seeks Further Information on the Effects of Federal Decisions on Local Rates and Services," Mimeo No. 3246, released March 30, 1984; Public Notice, "Request for Comments on Bypass Studies," Mimeo No. 6784, released September 21, 1984; Public Notice, "Request for Comments on Bypass Study by USTA," released October 10, 1984.

[23] Further Notice of Proposed Rulemaking, CC Docket Nos. 78-72 and 80-286, FCC 84-133, at para. 4, released April 11, 1984, 49 Fed. Reg. 18318 at para. 4 (April 30, 1984).

> is necessary in the near future to provide the industry with certainty. Fourth, flat fee end user charges are an equitable and economically sound method for recovering a portion of NTS costs, although assistance is needed for low income subscribers and those in high cost areas. In particular, rural telephone companies must be able to continue operations. Fifth, an appropriate transition to the new environment is needed. We seek comments on the residential and single line business end user charges as a means toward these ends.[24]

Despite this, the Commission stated that it would not preclude consideration of alternative plans which would significantly decrease toll loading[25] and achieve the Commission's four basic goals in providing for the recovery of interstate NTS local exchange costs.

11. On April 11, 1984, the Joint Board adopted an Order Inviting Comments,[26] which, among other things, requested comments on means of refining the high cost provisions previously recommended by the Joint Board and adopted by the Commission. We sought additional comments concerning the provisions for high cost assistance in order to allow further study of certain matters related to the targeting of high cost assistance which we had expressed concern about in our Second Recommended Decision and Order.

12. More than 50 parties filed comments or replies in response to the Commission's Further Notice of Proposed Rulemaking in CC Docket Nos. 78-72 and 80-286. Approximately 30 parties filed comments or replies concerning the high cost issues addressed in the Joint Board's Order Inviting Comments. The comments are discussed in the following sections concerning the recovery of NTS costs, high cost assistance and protection for low income households.

II. Recovery of NTS Costs

A. Summary

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[24] Id.

[25] Toll loading refers to the recovery of NTS or fixed local exchange telephone costs through the usage based rates for toll service.

[26] CC Docket No. 80-286, FCC 84-139, released April 11, 1984, 49 Fed. Reg. 18746 (May 2, 1984).

13. As previously stated, we recommend implementation of subscriber line charges for residential and single line business customers with a basic $1.00 monthly charge effective June 1985 increasing to $2.00 per month in June 1986.[27] We believe that subscriber line charges should be frozen at this level pending completion of a further study concerning: (1) the effect of subscriber line charges and other federal decisions on universal service; (2) the extent and potential for bypass of the local exchange; (3) the benefits of subscriber line charges in terms of increased economic efficiency; and (4) the effect of these cost recovery mechanisms on interexchange competition. This study should be initiated in late 1986 and completed as soon as possible consistent with the need to develop an adequate record. We also believe that a certain amount of flexibility must be allowed with regard to the recovery of carrier common line costs. Accordingly, we are recommending provisions designed to allow local telephone companies the option of filing alternative interstate tariff provisions for the recovery of carrier common line costs in order to combat localized bypass problems. Such tariff filings would be authorized under Part 69 of the rules only after concurrence in the company's proposal by the relevant state regulatory commission or the Joint Board. The company would be allowed to request Joint Board action on its proposal if the state commission does not act within 60 days of the filing, although the state commission would remain free to act on the proposal pending a decision by the Joint Board. Upon concurrence, a tariff filing would then be made with the Commission, subject to normal FCC tariff review procedures. While the rate elements and charges under these tariff provisions would differ from those in the National Exchange Carrier Association (NECA) tariff, we are recommending rules for the implementation of these optional alternative interstate tariff provisions that will ensure that they do not undermine the mandatory nationwide averaging of interstate NTS costs for purposes of the NECA carrier common line charge.[28] We believe that this approach will

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[27] We also recommend that the $2.00 per line charge for embedded Centrex lines be retained until we complete our study of the impact of subscriber line charges on Centrex service. We expect to consider further staff recommendations concerning Centrex service in February 1985. We are not making a recommendation concerning subscriber line charges for multi-party service. We expect the Commission to institute proceedings shortly to reexamine the rules in this area pursuant to the remand by the Court of Appeals in *National Association of Regulatory Utility Commissioners v. FCC*, 737 F.2d 1095 (D.C. Cir. 1984) *petition for cert. pending*, U.S. No. 84-95 (filed July 18, 1984).

[28] A more detailed explanation of the procedures for implementing the alternative carrier common line tariff provisions are discussed in paragraphs 36 through 41.

best serve the Commission's goals in the *MTS and WATS Market Structure* proceeding. Our recommendations also incorporate a number of important ideas contained in the major alternatives to subscriber line charges proposed in the comments.[29]

B. Comments

14. American Telephone and Telegraph Company (AT&T) supported the Commission's plan for implementation of residential and single line business subscriber line charges. AT&T argued that the additional time available to evaluate the universal service issue should allow focused consideration of alternative measures designed to meet those needs directly. It opposed further delay or weakening of the plan. United States Transmission Systems, Inc. (USTS) argued that it is imperative that the Commission begin implementation of a system of subscriber line charges at an early date. EMX Telecom stated that fixed monthly charges for residential and single line business subscribers would have an unfair impact on the majority of these subscribers. It suggested that the Commission develop an alternative means of compensating exchange carriers that more fairly reflects actual usage of exchange facilities.

15. Most of the Bell Operating Companies stated that the FCC's current plan for implementing subscriber line charges for single line business and residential subscribers represents the slowest acceptable transition plan. They found no reason to postpone implementation further. Mountain States, Northwestern Bell and Pacific Northwest Bell (U.S. West) stated that the initial charge should be equal to each company's multi-line business rate. If the Commission decided to allow a lower charge for residential and single line business users on an interim basis, they argued that the initial charge should be no less than $4.00 per line in 1985. NYNEX and Southwestern Bell argued that their econometric models demonstrate that implementation of a $4 subscriber line charge on a flash-cut basis in 1985 would have little effect on telephone penetration in their service territories.

16. Most of the large independent companies, including GTE Corporation (GTE), Central Telephone Company, Southern New England Telephone

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[29] We propose that this plan be implemented by adopting new Sections 69.203, 69.204, and 69.611 to describe interim, common line charges and associated pooling arrangements. Although subsequent proceedings may produce substantial changes in any post-transition rules for common line charges, we are not proposing changes in those rules at this time. We have not recommended deletion of the post-transition rules because some of the interim rules cross-reference the original post-transition rules.

Company (SNET) and United Telephone Company, as well as the United States Telephone Association (USTA) also supported implementation of the Commission's plan. Rochester Telephone Corporation argued that the Commission should adopt a transition plan for subscriber line charges that would impose equal charges for all customers by January 1, 1986 and would require all remaining NTS costs to be recovered through end user charges by January 1, 1989. Rochester took the position that the only possible alternative NTS recovery approach consistent with the Commission's policy objectives is the allocation of all NTS costs to the intrastate jurisdiction. Continental Telecom Inc. (Contel) proposed replacing frozen SPF with an Exchange Network Usage Factor (ENUF), equivalent to SLU, over a five year transition period.

17. The small independent telephone companies generally opposed subscriber line charges for residential and single line business customers or stated that they supported waiver of such charges for customers served by small telephone companies. Mashell Telephone Co. and the Michigan Action Group argued that subscriber line charges for all residential and single line business customers should be capped indefinitely at $4.00 for the period beyond 1989. The Rural Telephone Coalition (RTC) argued that a permanent cap on subscriber line charges would be an attractive modification to the current plan with the permanent cap set at the lesser of a percentage of interstate NTS costs determined as a result of quantitative studies of bypass and other relevant factors, or $4.00 for residential and $6.00 for business subscribers.

18. The large user groups filing comments included the Ad Hoc Telecommunications Users Committee (Ad Hoc), Federal Executive Agencies (FEA) and International Communications Association (ICA). They strongly supported the Commission's plan for implementation of subscriber line charges. Three groups representing residential telephone subscribers, Telecommunications Research and Action Center (TRAC), the National Association of State Utility Consumer Advocates (NASUCA) and the Office of Consumers' Council, State of Ohio (OCCO) opposed subscriber line charges. OCCO stated that the transition to these charges would gain greater consumer understanding and acceptance if the initial charge were set at $.25 or $.50, with gradual increases over the rest of the decade. The National Federation of Independent Business stated that subscriber line charges should initially be set at a low level with small incremental increases to permit careful monitoring of developments. The National Association of Homes for Children requested that the Commission either define private orphanages as residential subscribers or exempt private orphanages from the multi-line business subscriber line charge.

19. Most of the state regulatory commissions supported the concept of state flexibility behind the National Association of Regulatory Utility Commissioners (NARUC) proposal for a system of unified state and federal access tariffs to be filed with the state commissions subject to general

federal guidelines.[30] These states included: Florida, Iowa, Kansas, Kentucky, Michigan, North Dakota and Vermont. Florida and Michigan also requested that the Joint Board and Commission provide for experiments in their states to implement such an approach. The New York Department of Public Service argued that no drastic restructuring of interstate rates, such as that contained in the Commission's plan, is necessary at this time. It stated that if the interstate rate structure needs to be modified, it prefers a cap on the NTS costs recovered from any one user through usage sensitive pricing. The staff of the Pennsylvania Public Utility Commission opposed subscriber line charges and instead recommended gradual implementation of SLU based charges to the interexchange carriers. The Rural Electrification Administration (REA) argued that a move from SPF to SLU or a flat allocation factor approximating SLU would be a palatable compromise. NTIA urged the Commission to retain its plan while exploring in detail the implications of the proposed alternatives.

20. The Commission also requested comments on a letter which NARUC filed September 16, 1984, responding to a number of questions concerning the meaning and effect of the St. Louis plan.[31] These questions were raised by the Chief, Common Carrier Bureau in a letter to the President of NARUC.[32] Approximately 37 parties filed comments concerning the NARUC letter. AT&T stated that the current Commission plan should be used as the basis for judging any alternatives. It argued that a review of the St. Louis proposal revealed areas requiring further amplification and explanation. These included: (1) the mechanism for a national Universal Service Fund; (2) the clarity and specificity of the guidelines; and (3) the level of the proposed cap on NTS costs to be recovered in interstate charges. The other interexchange carriers, including American Satellite Company, ALTEL, Lexitel, MCI, SBS, Teltec, U.S. Tel. and USTS, uniformly opposed the St. Louis plan and argued that it would create an enormous increase in their administrative burdens.

21. The Bell Operating Companies and GTE supported implementation of the FCC access charge plan, with further study of the feasibility of an

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[30] This approach is frequently referred to as the St. Louis plan since it was adopted by the NARUC Communications Committee at its May meeting in St. Louis, Missouri.

[31] Public Notice, "Commission Seeks Comments on National Association of Regulatory Utility Commissioners (NARUC) Response to Common Carrier Bureau Questions on the St. Louis Resolution," September 19, 1984.

[32] Letter to Junie L. Bradshaw, President, NARUC from Jack D. Smith, Chief, Common Carrier Bureau, dated August 24, 1984.

approach such as the St. Louis plan which incorporates a degree of state flexibility. Rochester Telephone Company supported the concept of a unified tariff and argued that all NTS costs should be allocated to the state jurisdiction. It took the position that this would eliminate or reduce interregional subsidies and assure a uniform NTS cost recovery mechanism for each exchange carrier. United opposed the St. Louis plan, arguing that it would add further confusion and uncertainty to an industry which needs neither.

22. The Rural Telephone Coalition (RTC) also opposed the St. Louis resolution. RTC argued that the St. Louis plan would cause significant problems including additional administrative burdens and increased pressure for toll rate deaveraging. RTC stated that flexible pricing strategies do not address the underlying problems of companies serving high cost areas. It also argued that the FCC can not delegate its authority over interstate ratemaking to the states. The large user groups, such as Ad Hoc, Aeronautical Radio, Inc., FEA and ICA uniformly opposed the St. Louis plan. ABC, CBS, and NBC requested that the Commission ensure that television and audio programming services are expressly excluded from the scope of any unified tariffs.

23. Most of the state commissions endorsed the St. Louis approach. The Michigan, New Jersey, New York, Utah, Vermont and Wisconsin Commissions, the New England Conference of Public Utilities Commissioners, as well as the Office of Consumers' Council, State of Ohio supported the St. Louis plan. These parties argued that a single unified access charge tariff administered by the states has three main advantages: greater flexibility in meeting localized bypass and other ratemaking concerns; reduced administrative problems; and reduced possibility for arbitrage.[33] The Illinois Commerce Commission also favored the St. Louis plan, but conditioned its support on the simultaneous relaxation of the FCC policy requiring averaging of NTS costs for the purpose of interstate ratemaking. The Alabama Public Service Commission opposed the concept presented in the St. Louis resolution, and any other measures which would create additional pressure for the deaveraging of toll rates. Alabama also argued that it is imperative that the Commission provide adequate benefits to high cost companies. The Washington Utilities and Transportation Commission stated that a unified set of tariffs as suggested by NARUC would not meet the state's needs.

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[33] For purposes of this discussion, the term "arbitrage" refers to the ability of the interexchange carriers to take advantage of differences between state and federal access tariffs, for example, by misreporting the use of facilities to obtain favorable rates or terms.

24. On November 1, 1984, most of the major exchange carrier associations[34] filed a Joint Petition with the Commission and Joint Board outlining a plan for implementation of subscriber line charges and high cost assistance.[35] This plan is predicated on recovery of almost all interstate loop costs through subscriber line charges. It begins with the Commission's previously adopted $2.00, $3.00 and $4.00 access charge plan and a maximum $4.00 monthly subscriber line charge for residential and single line business customers through 1989. Section III discusses their proposal for high cost assistance.[36] The parties to this filing state that their recommendations on subscriber line charges and high cost assistance represent a unified proposal and they oppose adoption of any part of the plan by itself.

25. In the post 1989 period, this plan proposes different levels of subscriber line charges for small companies (those with less than 200,000 loops) and large companies. For small companies, subscriber line charges would be set to recover interstate loop costs (defined by the basic 25 percent interstate allocation), up to 110 percent of the nationwide average interstate NTS costs. This would equate to a subscriber line charge of $4.77 (based on 1983 data) for small companies with interstate NTS costs equal to or greater than 110 percent of the nationwide average. For large companies, the basic interstate allocation factor would be 35 percent for NTS costs between 110 percent and 160 percent of the national average and 55 percent for NTS costs between 160 percent and 169 percent of the national average. Under this allocation scale, the subscriber line charge for large companies with loop costs of more than 169 percent of the national average would be capped at twice the national average for these costs or $8.66

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[34] These associations included the National Telephone Cooperative Association, the Organization for the Protection and Advancement of Small Telephone Companies, the National Rural Telecom Association and the United States Telephone Association. They represent over 1300 of the approximately 1400 exchange carriers.

[35] The Joint Board's procedures governing ex parte presentations generally prohibit written ex parte presentations during the 15 day period immediately preceding a Joint Board meeting, although there is an exception for filings in response to a request by the Joint Board or its staff. Order, CC Docket No. 80-286, FCC 82-106, released March 5, 1982, 47 Fed. Reg. 23459 (May 28, 1982). The Joint Petition was filed less than 15 days before the Joint Board meeting on November 15, 1984, but it satisfies the Joint Board's ex parte procedures since the staff requested a filing by these groups.

[36] See paragraph 54.

(based on 1983 data). The plan also provides for modifying multiline business charges to equal the residential and single line business charges.

C. Discussion

1. Basic Plan for Interstate NTS Cost Recovery

26. The Joint Board believes that implementation of subscriber line charges in the amounts outlined at the beginning of this Section will best serve the Commission's goals of: (1) eliminating unreasonable discrimination and undue preferences among the rates for interstate services; (2) promoting efficient use of the local network; (3) preventing uneconomic bypass; and (4) preserving universal service. A basic $2.00 subscriber line charge for residential and single line business customers will substantially reduce the extent of the discrimination which the Commission found to exist between the flat rates charged for dedicated private line local loops and the per minute access charges for use of switched local loops. Flat rate recovery of a portion of the interstate costs of switched local loops will also promote economically efficient use of the local telephone network. In addition, it will allow major reductions in the carrier common line charge.[37] This will substantially reduce the incentive for the interexchange carriers and high volume toll users to bypass the local exchange[38] and will allow significant toll rate reductions. The Joint Board recommends that the Commission take all appropriate steps to ensure that the revenues generated by residential and single line business subscriber line charges are flowed through to customers in the form of reduced interstate toll rates. The additional provisions authorizing local companies (with the approval of their state commissions or the Joint Board) to file optional alternative tariff provisions for recovery of interstate

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[37] The carrier common line charge is designed to recover all interstate NTS local exchange costs for switched access that are not recovered through subscriber line charges with the exception of Category 6 NTS COE costs which are recovered through line termination charges.

[38] The NTS costs recovered through the per minute carrier common line charge are reflected in the interexchange carriers' rates for toll service. As a result, high volume toll users pay much more than the cost of connecting them to the telephone network. This creates an incentive for large users to construct or lease private communications systems which bypass the local exchange. The interexchange carriers also have a significant incentive to bypass the local exchange to avoid the carrier common line charge so they can offer lower rates to high volume users.

carrier common line costs pursuant to Part 69 of the FCC rules will also contribute substantially to reducing localized bypass problems which the across-the-board reduction in the carrier common line charge cannot prevent.

27. Limiting the basic subscriber line charge to $2.00 per month pending reevaluation by the Joint Board will also ensure that implementation of subscriber line charges for residential and single line business customers will not undermine universal service. It does not appear that a $1.00 or $2.00 monthly subscriber line charge, by itself, will have an adverse effect on the affordability of telephone service. However, we are concerned that recovery of additional NTS costs through subscriber line charges, in conjunction with other federal actions, such as more rapid depreciation of telephone company plant, and recent separations changes as well as the general upward pressure on local telephone rates,[39] could undermine universal service.[40] Subscriber line charges represent a major change in the way the interstate allocation of NTS local exchange costs have been recovered. We believe that such changes must be implemented gradually, subject to careful reevaluation before increases are allowed. Only a complete reexamination of these issues in light of actual experience will allow a sound determination of whether the basic subscriber line charge for these customers should ever be increased beyond $2.00 per month.

28. The weight of the comments supports implementation of subscriber line charges for residential and single line business users. As already indicated, we agree that gradual implementation of a $2.00 flat charge for these subscribers is in the long term public interest. However, we are recommending a number of changes in the Commission's existing plan designed to reflect certain ideas contained in the major alternative NTS cost recovery mechanisms proposed in the comments. These alternatives include: (1) the St. Louis plan for state flexibility through unified state and interstate access charge tariffs filed with the state commissions; (2) reductions in the interstate allocation of NTS local exchange costs; (3) restructuring interstate toll rates to reflect volume discounts for large users; and (4) restructuring access charges to reflect volume discounts or modifying the access charge rate structure to reduce the impetus for bypass. While we do not believe that any of these alternatives, by themselves, represent a workable means of recovering interstate NTS costs in a manner consistent with the Commission's basic goals, each of these alternative approaches reflects important underlying concerns that should be dealt with

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[39] This is due primarily to increases in wages and the cost of materials and supplies.

[40] The Joint Board is committed to development of a careful monitoring program to allow timely adjustments if necessary.

in any plan for recovering interstate NTS costs. Our recommendations in this regard represent a means of dealing with these concerns within a system of subscriber line charges.

29. In recommending implementation of limited subscriber line charges for residential and single line business subscribers, we recognize the extraordinary efforts of the National Telephone Cooperative Association (NTCA), the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO), the National Rural Telecom Association (NRTA) and the United States Telephone Association (USTA) in developing a consensus position among local exchange companies concerning subscriber line charges and assistance for subscribers in high cost areas. The decision by these organizations, representing both large and small local exchange carriers, to recommend subscriber line charges as a means of recovering the interstate NTS cost allocation demonstrates a broad industry-wide agreement concerning the need for flat rate recovery of most interstate NTS costs. Although we agree with these groups in recommending implementation of subscriber line charges for residential and single line business customers, we differ from them in our conclusion that flat rate recovery of interstate NTS costs should be limited to $2.00 per month for these subscribers until completion of further studies to determine whether additional flat rate recovery of interstate NTS costs should ever be authorized.

30. One of the major concerns underlying the St. Louis plan appears to be a desire on the part of state regulatory officials for flexibility to deal with bypass on a highly targeted basis.[41] Many of the comments in response to the NARUC letter persuade us that further study would be necessary before the approach proposed in the St. Louis plan could be implemented. We believe that an immediate solution is necessary to the problems inherent in the present system of interstate NTS cost recovery. Furthermore, the St. Louis plan is not compatible with the present method of recovering interstate NTS costs through nationwide average carrier common line charges. Under an approach with averaged charges, bypass represents a threat to all telephone subscribers, not just those served by the local company whose facilities may be bypassed. For example, a portion of the revenue generated by the per minute carrier common line charge for traffic originating and terminating in major metropolitan areas goes to cover NTS costs in high cost rural and remote areas. As a result, we believe that bypass represents a national problem that cannot be solved exclusively at the state level. The promotion of economic efficiency and the elimination of discrimination in the use of the local switched network for the

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[41] The St. Louis plan was also intended to eliminate a number of other problems associated with disparate intrastate and interstate rates for equivalent access service.

origination and termination of interstate services also represents a problem with national implications which can best be dealt with through joint federal-state action.

31. On the other hand, the potential for bypass of the local exchange differs from company to company. There are certain areas where the across-the-board reduction in the carrier common line charge resulting from implementation of a maximum $2.00 basic subscriber line charge will not be sufficient to prevent bypass. In light of this, we believe that a system of nationwide subscriber line charges should be supplemented with provisions which authorize the local exchange companies to develop (with the concurrence of their state commission or the Joint Board) optional alternative interstate tariff filings with the FCC to recover carrier common line costs. We believe that this recommendation reflects one of the major concerns underlying the St. Louis plan while allowing immediate steps to alleviate the problems inherent in the existing system.

32. The provision for alternative, highly targeted, interstate access charge tariff provisions designed to combat localized bypass problems also reflects proposals for dealing with the bypass problem through volume discounts in the access charge or interstate toll tariffs. In fact, we expect that many of the alternative tariff provisions for the recovery of carrier common line costs will take the form of volume discounts. Again, volume discounts alone do not appear to represent a satisfactory approach for dealing with the present problems related to the recovery of interstate NTS costs. A system of volume discount tariffs would reduce the pressure for bypass. It would also reduce the extent of discrimination and economic inefficiency which the Commission has found to be inherent in the present system. Despite this, volume discount tariffs, by themselves, will not address the bypass, discrimination and economic efficiency concerns to the same extent as the proposed subscriber line charge supplemented with optional volume discounts or other innovative tariff structures to deal with localized bypass problems. Relying exclusively on volume discounts for large users would also require major toll rate increases for low volume residential and small business subscribers. Using volume discounts in conjunction with subscriber line charges will alleviate this problem.

33. Capping basic subscriber line charges at $2.00 per month pending an evaluation of the need to recover additional NTS costs through flat charges also reflects one of the basic concerns underlying the proposals for a reduced interstate cost allocation. Most of these proposals are based on the idea that the interexchange carriers should continue to pay a major portion of interstate NTS costs, although some of them suggest a reduced interstate allocation in conjunction with subscriber line charges. At present, we do not believe that reducing the interstate NTS cost allocation represents a sound response to the problems produced by the existing NTS cost allocation and recovery mechanisms. Among other things, it would force state regulators to implement solutions to a national problem

which can best be remedied through federal measures developed in cooperation with the state commissions. A significant reduction in the interstate NTS cost allocation would require increases in local exchange and other intrastate rates to recover the increased intrastate costs. At the same time, interstate rates would be reduced to reflect a decreased revenue requirement.

34. We believe that the interexchange carriers should continue to pay a major portion of interstate NTS costs, at least through the interim period covered by our recommendations. Specifically, we recommend that subscriber line charges (including any surcharge necessary in conjunction with the optional anti-bypass tariff provisions discussed later in this section) be limited so that the interexchange carriers continue to pay at least a SLU (Subscriber Line Usage)[42] based portion of NTS loop costs on a nationwide average basis[43] during 1985 and 1986. Based on current data, a $2.00 subscriber line charge implemented in June 1986 will satisfy this criterion. During this period, the interstate allocation of CPE, inside wiring and NTS Category 6 COE, (Local Dial Switching Equipment) will also be recovered from the interexchange carriers through usage based charges.[44] While we believe that at least a SLU based portion of local loop costs should continue to be recovered from the interexchange carriers during this interim period, we recognize that full reevaluation of these issues in late 1986 and 1987 will be necessary to allow a determination of whether the portion of NTS costs paid by the interexchange carriers should be adjusted. Only a full reexamination of our experience in implementing the $1.00 and $2.00 subscriber line charges will allow a sound decision on this point.

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[42] The Subscriber Line Usage factor is equivalent to the portion of total usage that is interstate. If ten out of every one hundred minutes of use are interstate, SLU would be 10 percent.

[43] A $2.00 subscriber line charge for residential and single line business customers may leave less than a SLU based portion of loop costs to be recovered through carriers' carrier charges in the case of some states and companies. This is due to the fact that subscriber line charges for these customers will be uniform throughout the country, while the SLU based portion of local loop costs varies widely from company to company due to differences in interstate SLU levels and unseparated (total intrastate and interstate) costs per loop.

[44] These costs will continue to be recovered from the interexchange carriers as long as they remain part of the regulated rate base subject to separations.

2. Optional Alternative Carrier Common Line Tariffs

35. We now turn to a more detailed discussion of our proposal for allowing the local exchange companies, working in conjunction with their state regulators, a degree of flexibility in recovering carrier common line costs. Under the Commission's access charge rules, the carrier common line element is designed to recover interstate costs associated with CPE, inside wire, the universal service fund, NECA costs and the loop costs which are not recovered through subscriber line charges. These costs are averaged on a nationwide basis to produce a uniform per minute charge for origination and termination of interstate switched services (other than those provided by the OCCs through line side connections which qualify for a discounted access charge rate). The implementation of $1.00 and $2.00 subscriber line charges for residential and single line business customers will result in significant reductions in the nationwide average carrier common line charge. As previously mentioned, we recommend that the Commission ensure flow through of the new residential and single line business subscriber line charge revenues in the form of interstate toll rate reductions.

36. We also believe that additional measures may be necessary to combat bypass in certain areas. As a result, we are recommending that the Commission allow local exchange companies the option of filing alternatives to the carrier common line element in the NECA tariff. These tariffs would reflect volume discount rates for interstate access or other innovative rate structures designed to encourage use of the local switched network by the interexchange carriers and large volume customers. In order for these alternative rates or tariff structures to be fully effective in preventing bypass of the local network, we believe that the large volume users must realize cost savings. We recommend that the Commission adopt measures to ensure that the alternative tariff provisions benefit high volume toll users in the relevant study area.

37. We recommend structuring the provisions for such optional tariff filings to ensure nationwide averaging of carrier common line costs as required by the Commission's access charge rules.[45] This can be done by requiring the local exchange companies implementing alternative tariffs to pay into the NECA pool as if the alternative tariffs were not in effect. In the first year of the alternative tariff, the company's payment into the NECA pool would be based on a projection of their carrier common line

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[45] The averaging of most NTS costs (other than those recovered pursuant to subscriber line charges) through the carrier common line access charge element contributes to maintaining geographically averaged interstate toll rates.

minutes, ignoring the effect of the alternative tariff. In subsequent years, the number of minutes to be used in calculating the company's payments to the NECA pool would be developed by comparing: (1) projections based on the company's carrier common line minutes in the last year prior to the alternative tariff; and (2) the total of the previous year's carrier common line minutes and the minutes under the alternative tariff minus the number of those minutes estimated to be due to stimulation. The amount of the company's NECA carrier common line pool distribution would remain unchanged. Under this approach, increased revenues due to the stimulation of traffic under the alternative tariffs would reduce the level of the subcriber line surcharge.[46]

38. As previously indicated, we believe that such optional alternative tariff filings should be allowed pursuant to Part 69 of the Commission's rules only when the local exchange company concludes that such tariff changes are necessary and the state regulatory commission concurs in this decision. We also recommend that the local companies be allowed to ask the Joint Board to override a state commission's objection or act on such proposals if the state commission does not do so within 60 days of the filing.[47] This period should be ample for state consideration since concurrence in the proposal for an alternative tariff can be accomplished through a filing with the FCC, and does not require a rate proceeding before the state commission.[48] Under this procedure, the Joint Board could concur in the proposal, allowing a company to go forward with a special tariff filing before the FCC pursuant to Part 69 of the rules if the Joint Board was convinced that such measures were necessary to deal with a localized bypass problem. However, the state commission's grounds for objecting to the alternative tariff filing should be given considerable weight in any such Joint Board proceedings. A local company would not be authorized to go forward with such a tariff filing before the FCC pursuant to Part 69 of the rules in the absence of state commission or Joint Board approval. In order to facilitate state commission, Joint Board and FCC review of local company proposals for alternative tariff filings, we believe that the company should be required to serve each of these organizations concurrently with a copy of the proposal. Once the state commission or Joint Board

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[46] For a discussion of the subscriber line surcharge see paragraphs 39 and 40.

[47] The state commission would remain free to act on the company's proposal pending a Joint Board decision.

[48] Under this procedure, the state commission would be providing input concerning a proposal for a federal tariff filing. As a result, the provisions concerning state ratemaking or other administrative proceedings would not appear to apply.

concurrence is obtained, the actual tariff would be filed with the Commission and reviewed pursuant to normal FCC tariff filing procedures.[49]

39. The alternative tariffs are not likely to produce enough revenue to cover the required payments to the NECA pool. We believe that any revenue short fall should be recouped through a uniform surcharge on subscriber line charges for all customers in the study area involved. Although this approach will increase the cost burdens borne by these customers, we do not believe that alternative tariffs will receive state commission or Joint Board concurrence unless all subscribers will, in the long run, benefit from measures encouraging use of the switched local network by the interexchange carriers and high volume users. If the revenue shortfall were funded by a surcharge on the nationwide NECA carrier common line charge, local companies and the state commissions would have a strong incentive to proceed with such alternative tariff filings even when they were not necessary. Such an approach would allow local companies to reduce the NTS costs which they recovered in their service territory while requiring that all other toll users make up the revenue shortfall produced by these tariffs. This approach would also require that telephone subscribers in high cost rural areas pay higher toll rates designed to pick up the NTS costs which were previously paid by large users. We believe that our proposal will ensure that the decisions to proceed with these alternative tariff filings are made in a context where both the benefits and drawbacks of additional NTS deloading are realized within the study area involved.

40. We also recommend that the subscriber line surcharge for all customers in the relevant study area be limited to a maximum of $.35 per month. We believe all subscribers should be subject to the same surcharge since all customers will, in the long run, benefit from these measures to prevent bypass of the local exchange. Even without this limit, we doubt that state regulators would approve alternative carrier common line tariffs requiring surcharges in excess of this amount. Despite this, we believe that

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[49] The Communications Act provides for a maximum of 90 days public notice before a tariff filing becomes effective. Part 61 of the Commission's rules concerning tariff filings provides for a maximum of 45 days notice for tariff filings. However, Part 69 of the rules provides for 90 days notice for the annual access charge tariff filings. We recommend that the alternative tariffs also be filed on 90 days notice. During the public notice period the Commission may suspend the tariff to allow investigation of the filing or reject it if it is unlawful on its

the Commission should establish a cap on the level of the surcharge to provide subscribers with a necessary degree of certainty. We also recommend that the Joint Board undertake further study of the level of the surcharge in late 1985 or early 1986 (unless earlier review of this matter is necessary) to determine whether a higher cap on the surcharge would be desirable in conjunction with the $2.00 subscriber line charge to be implemented in June 1986. This determination can best be made on the basis of actual experience with alternative tariff filings.

41. We believe that the optional alternative interstate tariff provisions which we are recommending will serve as an effective means of combatting localized bypass problems. However, we recognize that there are a number of questions concerning implementation of such tariffs that should be examined further. We wish to facilitate the earliest possible implementation of these alternative tariffs, assuming Commission adoption of our recommendations. As a result, we intend to request comments on these implementation issues early in December 1984.

42. We conclude that these provisions for allowing individual local exchange companies to file alternative tariff provisions for recovery of carrier common line costs with state commission or Joint Board concurrence are entirely consistent with the Communications Act.[50] The Act normally provides for a system of carrier initiated tariff filings. American Telephone and Telegraph Co. v. FCC, 487 F.2d 865 (2d Cir. 1973). The provisions requiring state commission or Joint Board concurrence before a local company is authorized to proceed with an alternative tariff filing pursuant to Part 69 of the Commission's rules does not contravene this basic principle. The pooling of certain interstate NTS costs for purposes of the carrier common line charge has been prescribed in Part 69 of the rules pursuant to Section 205(a) of the Act. As a result, the local carriers are required to participate in the carrier common line pool. The state commission or Joint Board concurrence gives the local company authority to file under other provisions of Part 69 allowing alternative individual company tariff filings to recover carrier common line costs.

43. We also conclude that the alternative tariffs designed to combat localized bypass problems are consistent with the Act's prohibition against "any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities or services for or in connection with like communication service, directly or indirectly,..." Section 202(a)

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face. See Sections 203 and 204 of the Communications Act, 47 U.S.C. §§ 203 and 204. Additional provisions concerning review of tariff filings are contained in Part 61 of the Commission's rules.

[50] The Commission can establish a state commission and Joint Board role

of the Act, 47 U.S.C. §202(a). Switched access service is basically the same service regardless of whether the customer involved is a high or low volume user. However, a rate differential or alternative tariff structure designed to prevent the interexchange carriers and large toll customers from bypassing the local exchange appears to be just and reasonable. Such tariffs would, in fact, reduce the degree of discrimination inherent in recovering NTS costs from high volume users through usage based charges, promote economically efficient use of the local network and, in the long run, contribute to the preservation of universal telephone service. In *Aeronautical Radio, Inc. v. FCC*, 642 F.2d 1221, 1230 (D.C. Cir. 1980), *cert den.*, 451 U.S. 920, 451 U.S. 976 (1981) the D.C. Circuit approved provisions for departures from the fully distributed cost methodology when the carrier could justify such departures on the ground of efficiency or other public interest benefits, including competitive necessity. We believe our present recommendation satisfies this criterion.

44. In addition to these specific measures for allowing local exchange companies to file alternative anti-bypass tariffs, we urge the Commission and the Joint Board staff to work closely with interested state commissions to explore more comprehensive alternative tariff mechanisms for recovering the interstate allocation of NTS costs. We believe that carefully designed experiments with different tariff structures for recovering these costs will be valuable to the Commission in refining the present NTS cost recovery structure, and therefore we recommend that they be carefully reviewed through the Joint Board process. Such alternatives might well involve an even greater level of federal-state cooperation, and could be based on separations changes to permit states to substitute intrastate recovery mechanisms for the customer line surcharge. For example, the Florida Public Service Commission filed a petition with the FCC on November 8, 1984 for authority to implement a comprehensive unified interstate and intrastate access charge plan (Florida plan) in Florida on an experimental basis. It should be noted that under the Florida plan tariffs for recovery of interstate costs would continue to be filed with the FCC.

45. An additional issue before the Joint Board involves the treatment of orphanages as multi-line business customers for purposes of subscriber line charges. This is due to the fact that the NECA tariff uses the customer's local exchange tariff status as a residential or business subscriber for purposes of applying subscriber line charges. We continue to believe that this approach is appropriate.[51] Classification of customers as residential or business users in the local exchange tariffs is usually

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in authorizing alternative tariff filings based on local conditions pursuant to Part 69 of the rules. *See* Sections 4(i) and (j) and 410 of the Communications Act, 47 U.S.C. §§4(i) and (j) and 410(c).

[51] *See* *Second Reconsideration Order* in CC Docket No. 78-72, FCC 84-36, released February 15, 1984, 49 Fed. Reg. 7810 at footnote 32 (March 2, 1984).

subject to state commission review like any other term or condition in the local tariffs. If the state commission is satisfied with treating a particular subscriber as a business customer for purposes of the local tariff, we believe that such treatment should be appropriate for purposes of subscriber line charges as well. Having the FCC second guess the state commissions on this point would require the expenditure of substantial federal resources and would serve no useful purpose. Therefore, we recommend that any change in the user classification of orphanages be dealt with by state regulators.

III. High Cost Assistance

A. Summary

46. The Joint Board recommends that the Commission continue to use NTS local exchange costs as the basis for determining the level of assistance which each company should receive.[52] We are also recommending a number of changes in the separations provisions designed to assist telephone subscribers in areas with unusually high NTS local exchange costs. The most important change involves a revision in the scale for determining high cost assistance to qualifying study areas. Assistance will continue to apply to relevant unseparated (i.e., total intrastate and interstate) NTS local exchange costs in excess of 115 percent of the national average. We recommend revising the high cost assistance for study areas with less than 50,000 working loops to cover the following: (1) 50 percent of the study area's relevant cost per working loop in excess of 115 percent of the national average, but not more than 150 percent of the national average; and (2) 75 percent of the study area's relevant cost per working loop in excess of 150 percent of the national average. We recommend changing the high cost assistance for study areas with more than 50,000 working loops to include: (1) 25 percent of the study area's relevant cost per working loop in excess of 115 percent of the national average, but not more than 150 percent of the national average; and (2) 75 percent of the relevant cost per loop in excess of 150 percent of the national average. This retargeting of high cost assistance will provide increased protection for subscribers served by small high cost companies, while keeping the overall size of the high cost fund at a reasonable level.

47. We are also recommending a number of other changes in the existing plan for high cost assistance. We conclude that the authorized rate of return for interstate access service[53] should be used in calculating the level of high cost assistance. We also recommend freezing study area boundaries as they are on November 15, 1984 for separations purposes, including calculation of the level of high cost assistance. In addition, we believe that the transition from frozen SPF to the 25 percent basic allocation factor combined with high cost assistance should be extended from four to eight annual steps for all companies. We recommend continued use of frozen SPF as the allocation factor for NTS Category 6

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[52] We recommend that the carrier common line pool distribution for average schedule companies utilize a surrogate for the high cost assistance provided in Part 67 of the Commission's rules.

[53] The authorized rate of return for interstate access service is now 12.75 percent.

Central Office Equipment (COE), Local Dial Switching Equipment, pending a comprehensive review of all COE separations issues. As a result, we do not believe that NTS Category 6 COE should be included in determining the level of high cost assistance. The first two changes involving the rate of return and study area definition will continue long-standing industry practices. They will have a relatively small impact on the size of the total high cost fund. Our recommendations concerning Category 6 NTS COE are also designed to maintain the status quo pending further study. Extending the transition period will ease the burden on companies which will experience significant reductions in their interstate cost allocation as a result of the move from SPF to the new allocation method.[54]

B. Targeting High Cost Assistance

1. Background

48. The high cost assistance originally recommended by the Joint Board and adopted by the Commission[55] covers: (1) 50 percent of the study area's relevant NTS costs[56] between 115 percent and 160 percent of the national average; (2) 60 percent of the costs between 160 and 200 percent of the national average; (3) 70 percent of the costs between 200 percent and 250 percent of the national average; and (4) 75 percent of the costs above 250 percent of the national average.

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[54] Local telephone companies will move from their current frozen SPF to the new allocation factor in eight steps unless they qualify for an extended transition period. *See* paragraphs 71 through 73 for a further discussion of the transition provisions.

[55] The high cost assistance involves an additional interstate cost allocation for study areas with high NTS local exchange costs. This is designed to reduce the intrastate cost allocation and keep local rates lower than they would otherwise be. Pursuant to Part 69 of the Commission's rules, this additional interstate cost allocation is recovered from the interexchange carriers through usage based charges.

[56] The high cost assistance covers the costs of non-wideband local loops (excluding those used for WATS and private line service), as well as the associated drop and block wiring and Category 8.13 COE, Circuit Termination Equipment. The related maintenance, depreciation and taxes are also included along with a proportionate share of certain overhead expenses. *See* Appendix A for a list of the accounts involved.

49. In recommending this formula for high cost assistance, the Joint Board stated that, based on the existing record, the formula appeared to produce an appropriate level of high cost assistance without excessive toll loading. We expressed concern, however, that this approach produced anomalous results in the case of certain high growth areas which would receive a disproportionate share of the total assistance. As a result, we stated that we would continue to study this situation and issue a supplemental recommendation to the Commission if appropriate.

50. In the subsequent Second Reconsideration Order in CC Docket No. 78-72 the Commission stated, among other things, that it intended to conduct further proceedings concerning supplemental assistance for subscribers served by small telephone companies. The Commission noted two possible means of accomplishing this goal. The first involved making interstate subscriber line charges optional for companies with fewer than 50,000 loops in a study area. The second option involved increasing the level of assistance to high cost areas served by telephone companies with less than 50,000 loops in a study area. In its Further Notice of Proposed Rulemaking, in CC Docket Nos. 78-72 and 80-286,[57] the Commission requested comments concerning additional assistance for small telephone companies and asked the Joint Board to prepare a recommendation on this issue. On April 10, 1984, the Joint Board adopted an Order Inviting Comments in CC Docket No. 80-286 [58] requesting comments on a number of issues including matters related to "fine tuning" the provisions for high cost assistance. Among other things, we requested comments on whether large telephone companies had more flexibility than small companies to recover above average costs without an adverse effect on residential subscribers. In connection with this, we also asked for comments concerning decreasing the level of assistance for large telephone companies and increasing the level of assistance for small companies. In addition, we sought comments on whether the high cost assistance should be based on costs (and possibly the size of the study area) or whether additional factors, such as subscriber density, income levels or the rate of growth in local loops, should also be considered.

2. Comments

51. The comments revealed strong differences of opinion concerning the level of high cost assistance adopted by the Commission. Alaska, the Michigan Action Group and a number of small, rural telephone companies expressed support for the concept of increased assistance to small telephone

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[57] 49 Fed. Reg. 18138 (April 30, 1984).

[58] 49 Fed. Reg. 18746 (May 2, 1984).

companies. REA, NTIA, RTC, and the North Dakota Public Service Commission expressed support for the inclusion of a density standard in the high cost formula. AT&T supported measures directing assistance to companies with fewer than 50,000 loops. It also stated that small companies which would experience significant decreases in their interstate cost allocations resulting from the move from frozen SPF to the 25 percent basic allocation factor might need additional assistance. Southwestern Bell proposed limiting high cost assistance to study areas which have less than 50,000 loops and a composite local rate in excess of 75 percent of the national average.

52. Central, Contel and United favored the plan recommended by the Joint Board and approved by the Commission. United stated that it would support additional assistance to small companies if the need could be substantiated. GTE argued that the qualifying threshold for high cost assistance should be increased from 115 to 150 percent of the national average with a higher level of coverage above this threshold. Ad Hoc suggested the use of a multi-year moving cost average as a way to eliminate the effects of high growth or exceptional plant replacement and modernization from consideration in determining the high cost assistance. Kentucky argued that the level of assistance should be based primarily on the extent of residential telephone service penetration. West Virginia stated that assistance should be based on a combination of high NTS costs and the average per capita income of residents in the service territory. Vermont took the position that the states should design and administer any high cost assistance program. Vermont opposed national pooling of any high cost fund. Florida stated that, in the event its unified tariff proposal is adopted, assistance for small telephone companies should be provided within the state, with outside assistance only when the state was unable to generate a sufficient toll contribution.

53. A variety of parties including Ad Hoc, Bell Atlantic, Bell South, ICA, Rochester and U.S. West opposed basing high cost assistance on company size. SBS opposed separations based high cost assistance on the grounds that it provided improper economic signals, incentives for bypass and inefficient operations, as well as windfall profits for certain local companies. Rochester and NTIA proposed a cap on the amount of high cost assistance.

54. As previously mentioned, a number of exchange carrier associations filed a Joint Petition on November 1, 1984, proposing a plan for subscriber line charges as well as high cost assistance. When compared with the high cost plan adopted by the Commission, this plan provides for an increased level of assistance for small companies (those with less than 200,000 loops) and a greatly reduced level of assistance for large companies. Assistance for large companies would generally be limited to costs in excess of 169 percent of the national average. For large companies the high cost assistance would cover: (1) 55 percent of costs between 169

percent and 200 percent of the national average; (2) 85 percent of the costs between 200 percent and 250 percent of the national average; and (3) 90 percent of costs in excess of 250 percent of the national average. For small companies, 90 percent of NTS costs in excess of 110 percent of the national average would be covered. This plan endorses the use of a composite rate of return, such as the current 12.75 percent, in determining interstate NTS costs. These measures would serve to produce a high cost fund of about $427 million based on 1983 data. The plan also results in subscriber line charges for large high cost companies (as high as $8.66 per month based on 1983 data) which are substantially higher than those for smaller companies ($4.77 per month) as well as a greater intrastate NTS cost allocation. For example, 65 percent of NTS costs for large companies would be allocated to intrastate in the band covering costs from 110 percent to 160 percent of the national average, whereas only 10 percent of the costs would be allocated to intrastate in the case of the small companies.

3. Discussion

55. We conclude that high cost assistance should continue to be based primarily on NTS local exchange costs, although somewhat more assistance should be directed to smaller companies. We have examined the possibility of modifying the assistance formula to reflect additional factors such as income, subscriber density and the ratio of business to residential loops in each study area. Although inclusion of some of these factors in the high cost formula may be theoretically attractive, the record does not contain sufficient information to allow a determination of which factors significantly affect the affordability of telephone service,[59] and the weight which should be accorded to them. Substantial administrative burdens would also be involved in reflecting factors other than costs and company size in the high cost formula. As a result, we believe that high cost assistance should continue to be based primarily on cost since this is the single most important factor in determining the price of telephone service.

56. Although we conclude that the level of assistance provided to a given company should be based primarily on costs, we also believe that additional assistance is necessary for small companies. We also recommend an increased level of assistance for companies with the highest cost levels. At the same time, it is necessary to keep the overall amount of high cost assistance at a manageable level. We conclude that our objective of

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[59] For example, income levels would appear to have an effect on the affordability of telephone service, but this factor may be offset in many cases by differences in the cost of living.

ensuring that telephone service remains affordable in high cost areas while avoiding an excessive level of toll loading can best be accomplished by reducing the level of assistance for companies with costs below 150 percent of the national average, except in the case of companies with less than 50,000 working loops. The existing level of assistance would be maintained in the initial cost band for the smaller companies.[60] However, we propose an increased level of assistance for all companies to the extent that their costs exceed 150 percent of the national average. Accordingly, we recommend that the high cost assistance for study areas with fewer than 50,000 working loops include 50 percent of the study area's relevant cost per working loop in excess of 115 percent of the national average, but not more than 150 percent of the national average. For study areas with more than 50,000 working loops we recommend that the high cost assistance include 25 percent of the relevant cost per working loop in excess of 115 percent, but not more than 150 percent, of the national average. The high cost assistance for all companies would also include 75 percent of the relevant cost per working loop in excess of 150 percent of the national average.[61]

57. Our recommendation concerning retargeting of the high cost assistance reflects the conclusion that smaller telephone companies need somewhat more high cost assistance than larger companies. This conclusion is also one of the underpinnings of the high cost assistance plan proposed in the Joint Petition. However, we differ from RTC, OPASTCO, NRTA, and USTA with regards to the appropriate level of the differential in assistance between large and small companies. While we agree with these groups that small telephone companies need more assistance than large companies, we do not believe that the difference in assistance levels should be as great as proposed in the Joint Petition. We agree that large companies have more flexibility than small companies to recover above average costs without an adverse impact on residential subscribers. However, the information available to us does not indicate that the extent of the large companies' flexibility to recover above average costs without an adverse subscriber impact is as great as the proposal on high cost assistance in the Joint Petition would suggest.

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[60] Under our new proposal, the first cost band covers costs between 115 and 150 percent of the national average. The first cost band in the existing formula covers costs between 115 and 160 percent of the national average.

[61] Data showing the effect of alternative measures for high cost assistance were placed in the docket files in CC Docket Nos. 78-72 and 80-286 on November 1, 1984. "Public Notice," "High Cost Fund Data Placed in Docket File," November 1, 1984.

58. We find that the formula which we are recommending will direct assistance to the areas where it is most needed to ensure that telephone rates remain affordable for the average subscriber. Increasing the level of high cost coverage in the highest cost band will help to reduce the variation in local exchange rates from company to company. Under this approach all relevant NTS costs in excess of 150 percent of the national average would be allocated to the interstate jurisdiction. (Twenty-five percent of these costs would be allocated to interstate through application of the new basic allocation factor. The remaining seventy-five percent of the costs in this band would be allocated to interstate through the high cost formula.) Smaller companies would receive the same level of assistance in the first cost band as provided under the existing formula. The larger companies would continue to receive a substantial degree of assistance in the first cost band, although the amount of coverage would be lower than that originally adopted. This will keep the overall amount of high cost assistance at a reasonable level. The reduction in the level of assistance for the larger companies should not adversely affect universal service since these companies have some flexibility to recover above average costs without an adverse effect on residential subscribers.[62] For example, they have a larger and more varied base of business subscribers and services, and a greater ability to recover costs through approaches such as local measured service or increased short haul toll charges generated by modifying extended area service (EAS) offerings. Although several parties have suggested freezing the total dollar amount of high cost assistance, we do not believe that this approach is desirable since it would effectively decrease the amount of assistance over time due to inflation. We recognize, however, that rapid growth in the amount of high cost assistance could necessitate reexamination of the high cost formula.

59. We conclude that this level of high cost assistance, combined with the other changes which we are recommending, should ensure the continued viability of small telephone companies. We do not believe that subscriber line charges for residential and single line business customers should be made optional in the case of small companies. Assistance should be directed to those areas with high costs, not just small companies. In fact, many of the smaller companies have average NTS costs. We also wish to reemphasize our conclusion that the high cost assistance should be used exclusively to keep local telephone rates lower than they otherwise would be. Several parties such as the International Communications Association (ICA) have expressed concern that there is no assurance that telephone companies receiving high cost assistance will flow the benefits through to their customers. We strongly urge all of the state commissions to ensure

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[62] Implementation of any other cost recovery mechanisms would, of course, require state commission action.

that the benefits of these measures accrue to local ratepayers as intended. We will make supplemental recommendations to the Commission proposing remedial measures if it appears that the high cost assistance is being used for inappropriate purposes.

D. Cost of Capital

60. We recommend use of the relevant authorized rate of return for interstate access service in determining the high cost assistance. The Commission has historically applied a single rate of return for the interstate services of AT&T and the exchange carriers.[63] In our Second Recommended Decision and Order, however, we proposed use of each company's actual debt/equity ratio and embedded cost of debt along with AT&T's authorized interstate rate of return on equity of 17.4 percent in calculating the high cost assistance. We concluded that these measures were appropriate in light of the wide variations in capital structure and cost of debt among local telephone companies and our decision to base assistance on actual costs to the greatest extent possible. In its Decision and Order, the Commission adopted the Joint Board's recommendations on this point, but asked that we study this issue further and prepare a supplemental recommendation if appropriate. In our Order Inviting Comments in CC Docket No. 80-286 we requested comments on a number of questions concerning the cost of capital issue.

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[63] AT&T: Modification of Prescribed Rate of Return, 86 FCC 2d 221 (1981) aff'd sub nom. United States v. FCC, 707 F.2d 610 (D.C. Cir. 1983); AT&T, Docket No. 20376, 57 FCC 2d 960 (1976); AT&T Docket No. 19129, 38 FCC 2d 213 (1972), aff'd sub nom. Nader v. FCC, 520 F.2d 182 (D.C. Cir. 1975); AT&T, Docket Nos. 16258 and 15011, 9 FCC 2d 30 (1967). Under traditional procedures devised within the telephone industry, interstate charges collected by each telephone company originating tariff were merged to form an interstate revenue pool. Telephone companies agreed to distribute pooled revenues to participating carriers on the basis of the total expense and investment which each participant allocated to the interstate jurisdiction. This arrangement was sometimes called a "partnership" because each participant received the same return on its interstate investment. The transfer process among the Bell entities was known as "division of revenues" (DR) and the transfer process involving the independent telephone companies (Independents) was known as "settlements." However, the DR/settlements process was designed to operate as a single system producing the same results for Bell and non-Bell "partners." All local exchange carriers received AT&T's earned rate of return on the plant investment allocated to interstate.

61. The parties filing comments reflect two basic points of view on this issue. REA, RTC, USTA, and the small independent telephone companies supported use of the AT&T authorized interstate rate of return in determining the level of high cost assistance. REA argued that use of the actual cost of debt and the authorized AT&T interstate rate of return on equity would shift high cost assistance away from the small rural systems which need it most, causing substantial hardships for these companies and their subscribers. REA contended that use of the AT&T rate of return on equity in conjunction with the actual cost of debt is totally inadequate for REA borrowers because their operations involve a greater element of risk than AT&T due to the fact that they are very highly leveraged.[64] Alaska argued that the Commission should use an average industry-wide cost of capital unless it is prepared to analyze all elements of each company's cost of capital.

62. AT&T, Contel and Southwestern Bell opposed use of a uniform authorized rate of return for purposes of determining the high cost assistance. AT&T argued that the high cost assistance should, to the extent possible, reflect each company's actual costs, including cost of capital. AT&T recognized that the cost of each company's common equity is not always known, but argued that a state commission determination on the cost of equity could be used. In the absence of such a prescription, AT&T took the position that use of the interstate cost of equity is reasonable. Contel suggested development of a standardized capital structure model to determine the cost of capital for each local exchange telephone company.

63. The Joint Board recommends use of the authorized rate of return for interstate access service[65] in determining the level of high cost assistance. At the present time, this would be AT&T's 12.75 percent authorized interstate rate of return. As previously mentioned, the local exchange companies have historically received a nationwide average return (equal to AT&T's earned rate of return) on their interstate plant allocation through the separations and division of revenues/settlements process. A

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[64] The degree of business risk faced by a particular company is normally taken into account in prescribing a rate of return on equity. This is done because a business with a greater degree of risk will have to offer a higher return in order to attract investors.

[65] After the release of our Order Inviting Comments, in CC Docket No. 80-286, the Commission adopted a Notice of Proposed Rulemaking, in CC Docket No. 84-800, Authorized Rate of Return, for the purpose of examining the authorized rate of return for interstate services provided by AT&T and the exchange telephone companies. FCC 84-395, released August 13, 1984, 49 Fed. Reg. 32871 (August 17, 1984).

high cost assistance formula using the actual capital structure and embedded cost of debt could significantly reduce the level of interstate cost recovery for these companies at a time when they are already faced with an unprecedented degree of change. Our recommended approach is necessary in order to limit the degree of change experienced by small telephone companies to a manageable level as the industry moves into a new, more competitive environment.[66] The approach we are proposing also has the advantages of being very simple to administer and eliminating the need for decisions on a number of difficult, technical questions concerning the calculation of actual capital costs. Use of the authorized rate of return for interstate access will not have a major effect on the size of the high cost fund.[67]

E. Study Area Definition

64. In the Second Recommended Decision and Order in CC Docket No. 80-286, the Joint Board recommended that the term "study area" be defined as "a telephone holding company's operations within a single state" for separations purposes. The Commission subsequently adopted this definition. In its comments, the Rural Telephone Coalition (RTC) stated that the term "study area" has historically referred to the operations of an individual telephone company within a state, regardless of its affiliation with any other company. RTC argued that the new definition could require a single statewide cost study for companies owned by the same holding company even though the two companies do not have consolidated operations and have previously performed separate cost studies. RTC pointed out that such consolidated cost studies have not been performed in the past by companies owned by the same holding company and argued that implementation of this change would be costly.

65. The study area definition adopted by the Commission requires the averaging of NTS costs for separations purposes, including calculation of the high cost assistance, in the case of all companies within a state which are owned by a single holding company. This approach would eliminate differences in the overall level of assistance resulting from the number of separate companies a holding company owns within a state. It would also discourage companies from spinning off high cost exchanges as separate companies in order to maximize high cost support. However, the present definition could also discourage the acquisition of high cost exchanges or the expansion of service to cover high cost areas since such undertakings

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[66] We urge the Commission to consider the concerns underlying our recommendation here in reaching its decision in CC Docket No. 84-800, Authorized Rate of Return.

[67] See footnote 61, supra.

would penalize existing study area customers through the averaging process. Use of the present definition would also involve substantial administrative costs due to the need to reorganize the recordkeeping of existing study areas and perform consolidated cost studies. The present definition would also be inconsistent with state ratemaking mechanisms since most companies are treated separately for local ratemaking purposes even if the same parent owns other companies within the state.

66. The Joint Board recommends that study area boundaries in existence as of November 15, 1984 be frozen for separations purposes with high cost assistance calculated separately for each study area. Under this approach, an existing company study area purchased by a holding company which owned other companies within the same state could continue to be treated separately for separations purposes. Areas in which telephone service was instituted for the first time could also be treated as a separate study area if separately incorporated. In either case, the parent company would also have the option of folding the new service territory into one of its existing companies and using the average NTS costs for the expanded service area in determining the high cost assistance. We expect this to be the case when the benefits of consolidated operations exceed the reduction in high cost support. However, companies would be prohibited from setting up high cost exchanges within their existing service territory as separate companies to maximize high cost support. This definition would facilitate administration of the high cost fund, eliminate recordkeeping burdens, and remove the disincentive for purchase of high cost companies or expansion of service into high cost areas, which would result from the previously adopted definition.

F. *NTS Category 6 Central Office Equipment*

67. In the *Second Recommended Decision and Order*, the Joint Board recommended that the interstate allocation of NTS Category 6 COE costs continue to be based on frozen percentage SPF pending a comprehensive review of the need for changes in the separations treatment of central office equipment. We also recommended exclusion of NTS Category 6 COE in calculating the high cost assistance. The Commission subsequently adopted these recommendations. In the *Further Notice of Proposed Rulemaking*, CC Docket Nos. 78-72 and 80-286, the Commission asked the Joint Board to undertake a comprehensive review of the separations procedures for all COE and recommend revisions where necessary. We requested preliminary comments concerning COE issues in our *Order Inviting Comments* in CC Docket 80-286. Among other things, we noted that interested parties might wish to discuss the inclusion of certain Category 6 COE costs in calculating the level of high cost assistance.

68. Alaska, the Michigan Action Group, and a number of small telephone companies supported inclusion of NTS Category 6 COE in calculating

the high cost assistance. Some of these parties suggested that the exclusion of NTS Category 6 COE will have a significant adverse effect on high cost companies, since many of them have very high levels of investment in this plant. Contel proposed replacing frozen SPF as the allocation factor for NTS Category 6 COE with an exchange network usage factor equivalent to the Subscriber Line Usage (SLU). A number of parties suggested continued use of frozen SPF as the allocation factor for NTS Category 6 COE pending further review. AT&T and Southwestern Bell opposed high cost coverage for NTS Category 6 COE.

69. We recommend that NTS Category 6 COE continue to be allocated between the jurisdictions based on frozen SPF pending an in-depth review of all COE issues.[68] Since these costs will not be covered by the new 25 percent interstate allocation factor, including them in calculating the high cost assistance is not appropriate. Applying the 25 percent interstate basic allocation factor to NTS Category 6 COE would result in consistent treatment of plant traditionally identified as NTS for separations purposes. However, this is outweighed by the fact that application of the new 25 percent allocation factor presumes proper categorization of this plant without study of the major technological and engineering changes which have taken place in central office equipment over the past decade. Furthermore, this approach often fails to benefit high cost companies with a high proportion of NTS Category 6 COE investment since many of these companies also have high frozen SPFs. For these reasons, we believe that it is preferable to maintain the existing separations treatment of this plant until we are able to complete a comprehensive review of all COE issues. This recommendation does not affect the recovery of NTS Category 6 COE costs on a traffic sensitive basis through carrier's carrier charges under the Commission's access charge plan.

G. Account Inclusion

70. The Commission's rules governing the high cost assistance do not specify all of the accounts to be included in calculating the relevant NTS cost per loop. While inclusion of all relevant accounts is generally desirable to ensure that the high cost assistance truly reflects costs, we believe that the following accounts should be excluded from consideration in calculating high cost assistance because they are not normally recognized for state ratemaking purposes: (1) Account 100.2, Telephone Plant Under Construction; (2) Account 100.3, Property Held for Future Telephone Use; (3) Account 100.4, Telephone Plant Acquisition Adjustment; and (4) Account

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[68] Including NTS Category 6 COE in calculating the high cost assistance has a negligible effect on the overall level of assistance.

614, Amortization of Telephone Plant Acquisition. A list of the accounts which should be considered in calculating the high cost assistance is set forth in Attachment A.

H. Extended Transition

71. Currently, nationwide average SPF is frozen at approximately 28 percent, although the SPF factor for each study area varies. The transition from frozen SPF to the 25 percent basic allocation factor is now scheduled to be implemented in four annual steps beginning January 1, 1986. The Joint Board also recommended and the Commission adopted provisions limiting to ten percentage points the total annual decrease in any study area's interstate allocation for relevant NTS costs[69] after the additional interstate high cost allocation is taken into account. The Commission also adopted the Joint Board's recommendation that the high cost assistance be implemented in four steps even if the study area involved qualifies for an extended transition period.

72. A number of the small telephone companies filing comments asked that we reexamine the effect of the basic 25 percent allocation factor on small, rural telephone companies. Nevada Telephone-Telegraph Company suggested measures to ensure that small companies receive from interstate sources, at a minimum, the NTS revenues which they received in 1982. Other small telephone companies asked us to limit the maximum annual decrease in the interstate allocation to five percentage points. AT&T suggested easing the transition for small telephone companies by further limiting the annual decrease in their interstate allocations during this period.

73. We recommend that the Commission extend the basic transition period for implementation of the new allocation methodology from four to eight annual steps. The extended transition period would apply to all companies regardless of whether their present interstate allocation exceeds their allocation based on the new method. We also recommend limiting to five percentage points the total annual decrease for any study area in the interstate allocation of the relevant NTS costs after the high cost assistance is taken into account.[70] The high cost assistance should be implemented in eight steps even if the study area involved qualifies for an extended transition period. Extending the transition period will ease the

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[69] These NTS costs include Category 1.33 Outside Plant (including drop and block wire) inside wire, and Category 8.13 COE.

[70] For example, this would result in a 12 step transition in the case of a local company with a current frozen SPF of 85 percent if it does not qualify for high cost assistance.

impact of the new allocation methodology on companies with high SPFs and average costs. Although such companies should have average local exchange rates at the end of the transition period, they will experience significant increases in their intrastate NTS cost allocation. An extended transition will give subscribers served by these companies more time to adjust to the necessary changes. Since both frozen SPF and the new 25 percent allocation factor with high cost assistance produce a similar total interstate cost allocation, extending the transition period will have little effect on the overall division of costs between the jurisdictions.

IV. Assistance for Low Income Households

A. Background

74. One objective of this proceeding is to maintain universal telephone service as identified in Section 1 of the Communications Act, 47 U.S.C. §151. In the *Third Report and Order*[71] in the *MTS and WATS Market Structure* proceeding, CC Docket No. 78-72, the Commission further defined the universal service objective to mean "avoiding actions that would cause a significant number of local exchange service subscribers to cancel [telephone] service."[72]

75. Consistent with these concerns, in the *Third Report and Order*, the Commission indicated that it would entertain requests for waiver of the mandatory flat subscriber line charges from carriers who wish to provide lifeline options to ameliorate the effects of these charges on low income individuals who would not be able to afford telephone service. Waiver requests were required to specify: (1) the terms and conditions which apply to lifeline service; (2) the interstate revenues which would be lost from lifeline subscribers; and (3) adjustments to other interstate charges which would be required to secure the revenues lost. The Commission also added:

> [o]f course, states continue to have full authority to modify existing life line rates for local exchange telephone service or to institute such rates should they believe it is necessary to ameliorate the effects of interstate access charges.[73]

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[71] 93 FCC 2d 241 (1983).

[72] *Id*. at 266.

[73] *Id*. at 282.

76. In the Reconsideration Order, in CC Docket No. 78-72,[74] the Commission stated that it had not received any petitions for waiver and added that the petitions for reconsideration failed to provide any concrete proposals for complete or partial exemptions from subscriber line charges. The Commission further indicated, that the decision to reaffirm subscriber line charges should not be interpreted as foreclosing petitions for waiver for residential customers who cannot afford these charges.

77. Although the right to file a petition for waiver would normally be limited to the telephone companies whose tariffs are subject to the rule in question, the Commission extended the right to file waiver requests to state public utility commissions because of the public policy implications of lifeline service. The Commission also noted that in many cases states could maintain low residential rates without resort to waiver of subscriber line charges by creating local service lifeline rates that ameliorate the effects of these interstate charges.

78. In the Second Reconsideration Order in CC Docket No. 78-72 [75] released on February 15, 1984, the Commission reported that it had received only two petitions for lifeline service waivers. Applications were received from the New York Telephone Company and the Pacific Telephone and Telegraph Company on September 28, 1983. Although no state commissions filed applications for waiver, the Commission found after review of state ratemaking proceedings that few state commissions had developed intrastate lifeline programs. The Commission also found that measured service options were not available to residential subscribers in many exchanges. Since the record in CC Docket No. 78-72 did not provide sufficient information to allow development of federal assistance mechanisms, the Commission decided to conduct supplemental proceedings to develop the necessary rules to provide an exemption from subscriber line charges for those who might otherwise be unable to afford telephone service.

79. Accordingly, the Commission requested additional comments concerning a lifeline exemption or other assistance for low income subscribers in the Further Notice of Proposed Rulemaking, in CC Docket Nos. 78-72 and 80-286,[76] released April 11, 1984. At the same time, the Commission requested that the Joint Board prepare recommendations concerning this issue. With regard to lifeline or other assistance for needy

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[74] 48 Fed. Reg. 42984 (September 21, 1983).

[75] 49 Fed. Reg. 7810 (March 2, 1984).

[76] 49 Fed. Reg. 18318 (April 30, 1984).

subscribers, the Further Notice requested commenting parties to: (1) explain the type of assistance which they believe is needed, for example a subscriber line charge waiver; (2) define the group to receive assistance; and (3) explain how the assistance would be funded.

B. Comments

80. The commenting parties expressed general support for assistance for low income households. Thirty-five filings were received from state commissions, user groups and telephone companies. The Ameritech Operating Companies, the Cheyenne River Sioux Tribe Telephone Authority, Golden West Telecommunications Cooperative and Bell Communications Research argued that a lifeline program is not needed. They argued that subsidies cannot be maintained in a competitive environment since they increase costs in other areas, thereby distorting the competitive market. These parties also took the position that adoption of lifeline measures by the Commission at this time is premature because the states need more time to develop their own programs. They also argued that lifeline programs are too costly and administratively burdensome for telephone companies to administer.

81. The parties supporting an assistance program vary in their recommendations for: (1) the type of assistance; (2) source of funding (3) eligibility criteria; and (4) program administration. The major reason which these parties gave for supporting such programs is the need to preserve universal service and the possible adverse effect of additional costs on low income residential subscribers.

1. Type of Assistance

82. The parties filing comments propose three types of assistance: (1) a waiver or exemption from residential subscriber line charges; (2) a discount service with unlimited incoming calls and limited outgoing calls (without additional charge) or other form of measured service; and (3) direct subsidies through a public assistance program. The comments also propose a hybrid which includes a waiver of subscriber line charges and a low cost discount service.

83. A number of the commenting parties suggested intrastate plans developed in New York and California as models for other lifeline plans. The New York Telephone Company plan includes the following elements: (1) a requirement that applicants be recipients of public assistance; (2) a 50 percent discount on the charge for standard residential local exchange service; (3) untimed message service or reduced flat rate; and (4) applicant self certification.

84. The Pacific Bell plan in California includes the following elements: (1) a requirement that customers have a gross household income of less than $11,000 per year; (2) limitation of assistance to single line

telephone service in the subscriber's principal residence; (3) customer self certification; (4) lifeline rates set at 50 percent of the local measured service rate (or flat rate) exclusive of federal end user charges; and (5) funding through a Universal Service Fund generated by a 4 percent tax on intrastate interLATA services. Pacific Bell of California proposes that interstate residential subscriber line charges be reduced by 50 percent for certified lifeline customers. It recommends funding the resulting revenue shortfall through an adjustment in the interstate subscriber line charge for all remaining business and residence customers in the study area. Those proposing some type of lifeline service indicate that customers receiving service should be restricted to receiving the lowest priced local service offering available.

2. Eligibility for Assistance

85. In defining the group eligible to receive lifeline assistance, most of the commenters stress the need to target those truly in need "who would be unable to maintain access to essential local service without some form of assistance."[77] They recommend using household income and resources as the determinant. The commenting parties suggested the following eligibility criteria: (1) qualification for existing public assistance programs including food stamps, welfare and social security; (2) a household income below the poverty line (approximately 10 percent of the population); and (3) a household income below a level set by the welfare department or state regulatory commission. Alaska suggests that the cost of living should be considered in addition to household income. AT&T argues that other financial resources available to the household should also be considered.

3. Funding of Assistance

86. There were substantial differences among the commenting parties regarding the appropriate method for funding assistance. They identified the following posible sources of funding: (1) Universal Service Fund (USF); (2) state or federal taxes; (3) customer line charges; and (4) increased public assistance funds. A number of parties indicated that if the states were given responsibility for establishing a state lifeline program, state funding would be appropriate. However, they took the position that if the Commission set guidelines, national funding either from the USF, federal taxes or a public assistance program would be appropriate. Some of the parties, citing an overall social purpose linked to universal service, indicated that there should be federal assistance through a

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[77] Satellite Business Systems Direct Comments at 2.

mechanism other than from charges for other customers, exchange or interexchange carriers.

4. Administration of Lifeline Programs

87. Most of the commenting parties supported state administration of lifeline programs, with or without federal guidelines. Some parties suggested federal administration, but few suggested administration by local telephone companies. Many of the parties suggested that lifeline assistance be coordinated with current public assistance programs to reduce administrative burdens on the telephone companies. The main reason given by the parties for state administration is that state commissioners are better acquainted with the particular needs of low income subscribers within their states and can better tailor programs to meet those needs. A number of parties suggest that the states administer the programs using the model of other government entitlement programs even if federal guidelines are developed. NYNEX suggests eligibility requirements for lifeline plans be established by state officials with joint administration by the state and telephone company.

88. Some of the parties suggest a hybrid system for lifeline assistance, under which the state in conjunction with the local telephone company would have authority for a lifeline program using intrastate funds to recover state revenue shortfalls while a federal program using funds generated from interstate sources would be available for waivers of subscriber line charges.

C. Discussion

89. There is no evidence before us at this time to indicate that implementation of the limited subscriber line charges which we are recommending will harm universal telephone service.[78] However, we recognize that implementation of subscriber line charges in conjunction with the general upward pressure on local rates has generated legitimate concern regarding the protection of universal service.[79] Therefore, we are recommending implementation of a two-phase plan for dealing with these concerns. As the initial step we recommend implementation of a program to

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[78] For purposes of this discussion, the preservation of universal service refers to maintaining at least the existing level of telephone service penetration.

[79] In this regard, we note the Commission's ongoing studies concerning the effect of federal decisions and local rate increases on consumers, and emphasize the need to continue and expand such monitoring efforts.

offset the subscriber line charge for low income households. In conjunction with this, as the second phase of the plan we recommend further study, on an expedited basis, of broader measures to assist low income households in affording telephone service.

90. We recommend that the Commission provide an optional program for a 50 percent reduction in the subscriber line charge for customers who satisfy a state determined means test which is subject to verification. The shortfall in subscriber line charge revenues resulting from the subscriber line charge reduction would be recovered through an increase in the nationwide average carrier common line charge. The states wishing to take advantage of this assistance mechanism would be required to implement an equal monetary reduction in the local exchange rate for subscribers who qualify for the subscriber line charge reduction. This reduction would be funded from intrastate sources. The decision to implement this joint federal-state assistance mechanism would be left to the individual state commissions.

91. We believe that this approach represents an appropriate joint federal-state response to concerns about the preservation of universal service. We believe that the eligibility criteria for assistance should be established by the individual states since they are in a better position than the federal government to assess the need for assistance and develop means tests suited to local conditions and circumstances. A single nationwide standard would not be able to accomplish this. We also recommend further study of broader assistance measures by the Joint Board as the second phase of our plan. We expect that the means tests developed by the individual states in implementing the reduced subscriber line charge will be valuable in developing broader lifeline assistance measures in the near future. Development of such eligibility criteria by the state commissions will encourage active state involvement in instituting programs for broader lifeline assistance and contribute substantially to the successful implementation of such measures.

V. Ordering Clauses

92. Accordingly the Joint Board RECOMMENDS, That the Commission adopt the attached revisions to Parts 67 and 69 of the Commission's rules.[80]

FEDERAL COMMUNICATIONS COMMISSION
For the Federal-State Joint Board

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[80] This recommendation is adopted pursuant to Sections 4(i) and (j), 201, 202, 203, 205, 218, 221, 403 and 410 of the CommunicationsAct, as amended, 47 U.S.C. §§ 154 (i) & (j), 201, 202, 203, 205, 218, 221, 403 and 410.

Appendix A

We recommend inclusion of costs[1] in the following accounts in calculating the high cost assistance:

Account 100.1	Telephone Plant In Service
Account 122	Materials & Supplies
Account 171	Depreciation Reserve
Account 172	Amortization Reserve
Account 176	Accumulated Deferred Income Taxes
Account 608	Depreciation
Account 609	Extraordinary Retirements
Account 613	Amortization of Intangible Property
Account 602	Repairs to Outside Plant
Account 603	Test Desk Work
Account 604	Repairs of Central Office Equipment
Account 605	Installations & Repairs of Station Equip.
Account 606	Repairs of Buildings & Grounds
Account 610	Maintaining Transmission Power
Account 611	Employment Stabilization
Account 612	Other Maintenance Expenses
Account 306	Federal Income Taxes - Operating
Account 307	Other Operating Taxes
Account 308	Operating Federal Income Taxes Deferred
Account 309	Income Credits & Charges Fr. Def. Inc. Tax
Account 661	Executive Department Expense
Account 662	Accounting Department Expense
Account 663	Treasury Department Expense
Account 664	Law Department Expense
Account 665	Other General Office Salaries & Expenses
Account 668	Insurance Expense
Account 669	Accidents & Damages Expense
Account 675	Other Expenses
Account [illegible]	Expenses Charged Construction
Account 671	Operating Rents
Account 672	Relief & Pensions
Account 674	General Services & Licenses

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[1] Part 67 of the Commission's rules specifies what portion of these costs is to be included in calculating the level of assistance.

Appendix B

Recommended Amendments to Part 67 of the Commission's Rules

1. Amend Section 67.124(d)(6) to read as follows:

> (6) The interstate allocations of OSP Category 1.33 plant investment for the years 1986, 1987, 1988, 1989, 1990, 1991 and 1992 will be as follows, subject to the limitation contained in §64.124(d)(7):
>
> (i) 1986 - The §67.124(d)(4)(i) allocation factor multiplied by .875 plus .03125.
>
> (ii) 1987 - The §67.124(d)(4)(i) allocation factor multiplied by .750 plus .0625.
>
> (iii) 1988 - The §67.124(d)(4)(i) allocation factor multiplied by .625 plus .09375.
>
> (iv) 1989 - The §67.124(d)(4)(i) allocation factor multiplied by .5 plus .125.
>
> (v) 1990 - The §67.124(d)(4)(i) allocation factor multiplied by .375 plus .15625.
>
> (vi) 1991 - The §67.124(d)(4)(i) allocation factor multiplied by .25 plus .1875.
>
> (vii) 1992 - The §67.124(d)(4)(i) allocation factor multiplied by .125 plus .21875.

2. Amend Section 67.124(d)(7)(i), (ii) and (iii) by substituting the phrase "five percentage points" for the phrase "ten percentage points".

3. Amend Section 67.611 by deleting Section 67.611(a)(9).

4. Amend Section 67.621(a)(1) by substituting "is multiplied by the study area's authorized interstate rate of return" for "is multiplied by the study area's cost of capital" and by deleting the final sentence in Section 67.621(a)(1).

5. Amend Section 67.631 to read as follows:

§67.631 Expense Adjustment

(a) For study areas reporting 50,000 or fewer working loops pursuant to §67.611(a)(8). The expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

(1) Fifty percent of the study area average unseparated loop cost per working loop as calculated pursuant to §67.622(b) in excess of 115 percent of the national average for this cost but not greater than 150 percent of the national average for this cost as calculated pursuant to §67.622(a) multiplied by the number of working loops reported in §67.611(a)(8) for the study area.

(2) Seventy-five percent of the study area unseparated loop cost per working loop as calculated pursuant to §67.622(b) in excess of 150 percent of the national average for this cost as calculated pursuant to §67.622(a) multiplied by the number of working loops reported in §67.611(a)(8) for the study area.

(b) For study areas reporting more than 50,000 working loops pursuant to §67.611(a)(8) the expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

(1) Twenty-five percent of the study area average unseparated loop cost per working loop as calculated pursuant to §67.622(b) in excess of 115 percent of the national average for this cost but not greater than 150 percent of the national average for this cost as calculated pursuant to §67.622(a) multiplied by the number of working loops reported in §67.611(a)(8) for the study area.

(2) The amount calculated pursuant to Section 67.631(a)(2).

6. Amend Section 67.641(a) by substituting "1993" for "1989".

7. Amend Section 67.641(c) to read as follows:

(c) The expense adjustments for 1986 through 1992 shall be as follows:

(1) One-eight of the amount computed in accordance with §67.631 in 1986;

(2) One-quarter of the amount computed in accordance with §67.631 in 1987;

(3) Three-eights of the amount computed in accordance with §67.631 in 1988;

(4) One-half of the amount computed in accordance with §67.631 in 1989;

(5) Five-eights of the amount computed in accordance with §67.631 in 1990;

(6) Three-quarters of the amount computed in accordance with §67.631 in 1991; and

(7) Seven-eights of the amount computed in accordance with §67.631 in 1992.

8. Amend the definition of the term "study area" in the Glossary to read as follows:

> Study area - Study area boundaries shall be frozen as they are on November 15, 1984.

Appendix C

Recommended Amendments to
Part 69 of the Commission's Rules

1. Add the following new Sections 69.203 and 69.204:

69.203. Interim Common Line Charges.

(a) Except as provided in Section 69.204, End User Common Line and Carrier Common Line charges for any period commencing after May 31, 1985, shall be computed as provided in this section.

(b) Charges shall be computed as provided in Sections 69.202 and 69.205 except that End User Common Line charges shall be assessed as provided in subsections (c)-(f) of this section.

(c) The End User Common Line charge for single line business subscribers shall be $1 per month per subscriber during the June 1, 1985 - May 31, 1986 period and $2 per month per subscriber after May 31, 1986.

(d) Except as provided in subsection (f), the End User Common Line charge for single line and multi-line residential subscribers shall be $1 per month per line during the June 1, 1985 - May 31, 1986 period and $2 per month per line after May 31, 1986.

(e) [Reserved for party line charges.]

(f) The End User Common Line charge for a residential subscriber shall be 50% of the charge specified in subsections (d) and (e) if the residential local exchange rate for such subscribers is reduced by an equivalent amount, provided that such local exchange service rate reduction is based upon a means test that is subject to verification.

69.204 Optional Alternative Carrier Common Line Tariff Provisions.

(a) A telephone company that files a concurrence described in subsection (c) of this section may file Optional Alternative Carrier Common Line tariff provisions for a particular study area to encourage use of telephone company access service facilities by interexchange carriers and large volume users. Such tariff provisions shall be designed to ensure that large volume users of interstate or foreign telecommunications services in such study area will receive the benefit of any reduction in Carrier Common Line charges.

(b) A telephone company that files an Optional Alternative Carrier Common charge may file a surcharge upon End User Common Line charges if

(1) a uniform surcharge is imposed upon all monthly End User Common Line charges in such study area;

(2) the monthly surcharge does not exceed 35 cents; and

(3) such surcharge revenues are not likely to exceed the difference between the annual revenues that would have been produced by the association Carrier Common Line charge and the annual revenues that will be produced by the Optional Alternative Carrier Common Line tariff provisions.

(c) A concurrence may be issued by a public utility commission that regulates intrastate telecommunications services in the relevant area or by the CC Docket 80-286 Joint Board. A telephone company may request a concurrence from the CC Docket 80-286 Joint Board if, but only if, the appropriate public utility commission declines to issue a concurrence or fails to act upon a request for a concurrence within 60 days after such request has been filed. A concurrence shall signify that a majority of such commission or Joint Board agree that the Optional Alternative Carrier Common Line tariff provisions are warranted to deter bypass in the affected area and that any End User Common Line surcharge is not likely to impair universal service in the affected area.

2. Add the following new Section 69.611:

69.611. Effect of Optional Alternative Carrier Common Line Tariff Provisions and End User Common Line Surcharges.

(a) The existence or potential existence of Optional Alternative tariff provisions filed pursuant to Section 69.204 shall not affect the computation of association charges for any access element.

(b) End User Common Line surcharge revenues shall not be included in End User Common Line revenues for purposes of computing pool distributions.

(c) The Carrier Common Line residue that is computed pursuant to Section 69.605 shall be increased by adding an amount that is computed by subtracting the Carrier Common Line revenues attributable to study areas with Alternative Carrier Common Line tariff provisions from the projected Carrier Common Line revenues for such study areas that would have been received at the association Carrier Common Line rate.

(d) The Carrier Common Line residue distribution that is computed pursuant to Section 69.607 shall be reduced for a company that has effective Alternative Carrier Common Line tariff provisions by subtracting an amount that is computed by subtracting the Carrier Common Line revenues attributable to such company's study area of areas with Alternative Carrier Common Line tariff provisions from the projected Carrier Common Line revenues for such study area or areas that would have been received at the association Carrier Common Line rate.

APPENDIX H.—ADDITIONAL COMMENTS SUBMITTED BY THE RURAL TELEPHONE COALITION

Docket No. 84-800
Comments of Rural
Telephone Coalition
APPENDIX A

TESTIMONY
OF
EUGENE M. LERNER

PROFESSOR OF FINANCE
KELLOGG GRADUATE SCHOOL OF MANAGEMENT
NORTHWESTERN UNIVERSITY

IN SUPPORT OF
THE RURAL TELEPHONE COALITION
COMMENTS IN THIS PROCEEDING

November, 1984

TESTIMONY OF EUGENE M. LERNER

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TESTIMONY OF EUGENE M. LERNER

I. INTRODUCTION

My name is Eugene Lerner and I am a Professor of Finance at the Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois. I have submitted testimony discussing the appropriate rate of return for telecommunications carriers and other utilities in several proceedings before state and federal regulatory agencies. In addition, I have testified on capital markets questions before the United States Congress and federal regulatory authorities. A complete statement of my qualifications is attached to the end of this testimony.

This testimony is submitted on behalf of the Rural Telephone Coalition (RTC), an organization composed of the Organization for the Protection and Advancement of Small Telephone Companies, the National Rural Telecom Association, and the National Telephone Cooperative Association. My testimony is part of the RTC's response to the Commission's *Notice of Proposed Rulemaking* issued in CC Docket No. 84-800 proposing to authorize interstate rates of return.

II. SUMMARY

I recommend that the Commission establish rates of return for exchange carriers based upon rates of return established in the competitive marketplace. The prescribed rates of return should be rates of return on rate base. A logical set of "groups" is each Regional Holding Company (RHC), the GTE Corporation (GTE) and "all other exchange carriers" (the "'all other' group").[1] The first three groups identified by the FCC (ATCom, the BRHC's, and the exchange carriers owned by GTE) are large firms. These companies have ready access to the capital market, and their cost of capital is determined in the competitive marketplace.

The RTC companies in contrast, do not have ready access to the private capital market. If they were to solicit funds from private lenders, their cost of capital would be higher than those of the three groups that the FCC identified.

The RTC companies should not earn a return on assets that is based on their own cost of capital. Rather the FCC should exercise its judgment and permit them to earn only that return on assets which is equal to the average of the individually established rates of return for the groups of telephone companies that have a competitively determined cost of capital. This recommendation is in harmony with the Commission's laudable goal of fostering a competitive marketplace.

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[1] In the Notice the Commission suggests grouping the seven RHCs into one group. While this may not be acceptable to the RHCs, the manner in which the RHCs and the GTE operating companies are grouped is essentially irrelevant to my analysis, and one "RHC group" rate of return may be substituted for the seven RHCs' rates of return referred to in this testimony. The essential point is not how these carriers are grouped, but that their costs of capital are determined in competitive markets.

There are several advantages to this approach.

(1). This return is based on the cost of capital of firms that compete in the national capital market. It leads neither to unreasonable charges to consumers nor to excessive returns to investors.

(2). This approach allows rural companies to get the benefit of the government programs that were designed for them and their customers, rather than having the benefits of the lending programs accrue to the interstate carriers.

(3). This approach results in awarding a return that could have been derived by postulating a particular hypothetical capital structure and hypothetical set of embedded costs. Specifically, the structure and costs of large, competitive firms with access to national capital markets, become the surrogate for small companies with little or no access to the capital markets.

(4). This approach is consistent with the goal of the FCC to avoid protracted hearings as to what the rate of return of the one thousand REA Borrowers should be.

III. BACKGROUND

There are about 1,450 local operating telephone companies throughout the United States including the former Bell and the GTE operating companies. Of these, approximately 950 rural companies obtain financing through federal goverment loan programs administered by the Rural Electrification Administration (REA). These telephone companies are small and serve rural areas. In the aggregate, they operate approximately 4,800,000 access lines through 5,900 exchanges. On average, each company has less than 5,052 access lines. However, because they serve such large geographic areas, each company has, on average, over 6.2 central offices. These small companies are a very diverse group, and dealing with them individually can be a difficult task.

Prior to the breakup of the Bell System, the Commission prescribed a single, overall rate of return on rate base for the interstate services of AT&T and the Bell operating companies. This rate of return was also applied to the remaining 1400 or so exchange carriers for toll settlement purposes.

Since the Bell System's dissolution, the Commission has moved to a tariff-based system of compensating exchange carriers for the costs they incur to provide interstate access services. As part of this new system, the Commission issued the Notice on August 13, 1984, which establishes CC Docket 84-800 to examine how to establish the interstate rate of return for American Telephone and Telegraph Company (AT&T) and the exchange carriers.

The Notice raises the following issues for discussion:

1. Should the old, single rate of return be abolished in favor of multiple rates of return established by "reasonable groupings" of exchange carriers?

2. Should a rate of return on rate base or only an overall cost of equity be established for each of the groups developed by the Commission?

3. Should a formula be established for developing the authorized rate of return?

4. Should "notice and comment" rulemaking be used instead of oral hearings?

5. Should a fixed interval for review and re-prescription of the rates of return be established?

I will address the first and second issues. Since I do not propose that the rate of return for the "all other" group be independently established, I will not discuss the third issue or the procedural issues and time of review and revisions of rates of return.

IV. RURAL TELEPHONE OPERATIONS

Exchange carriers providing service to rural areas are, by and large, small systems with a small subscription base and a market area that may be large in geographic area but is small in terms of the potential customer population. The small subscriber base, large service area, and the geographic characteristics of the service area (e.g., often mountains, desert, open plains) combine to aggravate the already capital-intensive nature of the telephone industry. In short, since the population density in rural areas is low, rural telephone companies have relatively high plant investment per customer, particularly when compared with the large carriers serving urban areas. These factors add up to a very real and continuing need for funds to finance the investment necessary to provide telecommunications service to rural areas. Table 1 shows the dollar value of the additional investments made by REA-financed companies over the past four years. Note that in 1983 these companies invested over $962 million to improve service.

A. Congressional Policy

Prior to the mid-1940s, telephone service to rural America was either poor or nonexistent. Then, in 1949, the Congress amended the Rural Electrification Act of 1934 to authorize the REA to include telephone companies in the REA's financing activities of direct and guaranteed loans. The Rural Telephone Bank was established in 1971. These financing programs were established by the Congress to effectuate its

> ...policy...that adequate telephone service be made generally available in rural areas through the improvement and expansion of existing...facilities and the construction and operation of...additional facilities...to assure the availability of adequate telephone services to the widest practicable number of rural users of [telephone] service.

The quoted words are found in Section 921 of Title 7 of the United States Code. These programs allow rural telephone companies to borrow money at favorable interest rates so that they may translate into reality the intent of the Congress to extend the telecommunication infrastructure to all areas of the country at reasonable and affordable rates.

Professor Willig has studied the externality benefits of rural telephone service to the nationwide telephone network. He indicated that rural companies require REA program assistance to maintain affordable residential rates.

These government programs have loaned $7.1 billion to the small telephone companies serving rural areas, and have successfully kept these companies' borrowing costs at low levels. The data in Table 2 show that the average embedded cost of debt for all REA borrowing companies at the end of 1983 was 6.21 percent. The average embedded cost of debt for all Bell operating companies was 9.33 percent. The average embedded cost of debt for other telephone holding companies and independent operating companies falls between these two rates. In recent years, however, the cost of REA borrowing has been increasing, so that over time the embedded cost of debt for REA companies may be expected to rise, narrowing the gap with other segments of the industry.

B. REA Policy

To protect its outstanding loans, the REA has imposed a number of financial restrictions on the borrowing companies. For example substantially all of the telephone plant of the REA Borrowing companies is subject to a mortgage. As a result, REA borrowers have little tangible property left which they could use as collateral if they were compelled to raise new monies in the private capital market. Other covenants in the loan agreements specify that no dividends may be paid until various financial requirements have been met. These and similar restrictions lessen these companies' ability to raise new equity or debt capital.

Furthermore, the REA imposes "area coverage" and other operating requirements on borrowers. "Area coverage" means that a borrower _must_ provide service to _all_ who request it within the service area, even if this requires extending the network to previously unserved areas and regardless of the potential unprofitability of the service.

Finally, the REA has urged rural borrowers to upgrade service and install current state-of-the art facilities. For instance, rural REA borrowers are moving to single party service, which allows rural subscribers to enjoy the same benefits of this type of service, such as privacy, complete availability of the phone around the clock, and so on, as are enjoyed by subscribers in urban areas. Table 3 clearly shows that rural companies have been good stewards of the funds that have been made available to them. In conformity with the Congressional policy administered by the REA, the companies have moved far toward the goal of increasing the availability of single party service. At the end of 1983, 85.8 percent of the approximately 4,800,000 premises served by the system have single party service; in 1958, only 20.8 percent of their customers had single party service. The Commission should note that between 1958 and 1965, approximately half of rural residential subscribers had eight party service. Today with the help of the REA program eight party service has all but disappeared.

C. Subscriber Needs

The rural subscribers want their telephone companies to provide modern, high-quality local and long distance services as well as keeping the price of telephone service affordable. These desires are encouraged by the heavy advertising of the long-distance companies, particularly AT&T, extolling the virtues and wase of direct distance dialing, calling instead of writing, and so on. Visits to areas with high-quality services, as well as the demands of family members living in these areas, add weight to the subscribers' desires for modern service. Modern business practices also require the extension of high-quality service to rural areas, where most of this country's agricultural production and mineral extraction occurs. Poor quality telecommunications services could easily, and adversely, affect rural businesses, and raise the costs of many goods and services. In sum, today's life requires modern, high-quality telecommunications services in all areas of the country.

Dr. Edwin Parker studied the linkage between telephone communication investment and economic productivity. He concluded that "there are demonstrable benefits for regional and national economies from investments in rural telecommunications facilities in terms of increased efficiency in the organization of economic activity leading to increased productivity" and even estimated that the benefits "of these [REA] programs to the United States economy are between six and seven times their costs."

Rural telephone companies are continuing to make major capital commitments to improve the services they offer, in response to both government policy and customer demand. Because the geographic area served by these companies is sparsely populated, the per customer cost of these carriers' investment is relatively high. REA borrowing companies face the challenge of continuing to provide a high level of service to their customers at an affordable price, in conformity with

Congressional policy. Rural companies that do not or cannot use REA financing face similar burdens without the assistance of low-cost government money.

D. The Risks of Rural Telephone Operations

Telephone operations in rural areas are a risky business. The high costs of telephone facilities in rural areas, the sparse population and correspondingly sparse markets, the small residential and business subscriber base and the small and uncertain revenue streams of rural companies all contribute to this risk.

The business risks affect the financial risks of these small and rural companies. Any business has a certain amount of financial risk, which is reflected in that business's cost of capital.[2] However, the small operations of rural companies face higher financial risks than do the large, urban companies, and so face correspondingly higher capital costs.

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[2] The cost of United States government bonds is traditionally used by rate of return experts as the measure of "riskless" debt. Investment in these securities is seen to be essentially risk-free, and the debt cost of private firms is, as a consequence, higher than the cost of debt to the government.

E. Special Rural Conditions

The REA's restrictions on the use of funds, area coverage requirements, and federal policies urging the provision of high-quality service to rural areas all contribute to the need for capital. These factors, plus the high costs and business risks of rural operations mean that rural telephone companies face a very different set of problems than do urban companies, and, as a result, face higher capital costs. These higher costs would otherwise preclude the extension of telecommunications services to these areas and the improvement of facilities and services, were it not for government policies fostering such extension and upgrading.

V. RURAL COMPANIES' COST OF CAPITAL

As discussed above, rural telephone companies face a high cost of capital. In this connection, some important points should be understood. First, these companies' capital structures tend to be distorted by an artifically high proportion of debt. The distortion in structure of these typically highly leveraged companies occurs because of the availability of low-cost debt from the REA programs, and also because equity financing tends not to be available. Second, the overall cost of debt for rural telephone companies tends to be artificially low, due to the REA programs. Third, the small and rural companies' cost of equity is typically higher than the equity costs of larger, urban companies because of the high business and financial risks of the smaller operations, including their high proportion of debt. These factors, which tend to have varying impacts on a company-by-company basis, must be taken into account when prescribing an interstate rate of return for them.

The problem is complicated by the variety and number of small companies. The difficulty of establishing rates of return for the seven RHCs and GTE will be multiplied many-fold if the Commission attempts to set rates of return even for subgroups of the remaining exchange carriers.

One solution consistent with standard regulatory practice would be to establish hypothetical capital structures, costs of debt, and costs of equity for these companies. However, even this task would be difficult for small companies, as the process necessarily implies that the Commission will make an independent examination of the costs of debt and equity for these systems.

A solution that produces a result similar to the hypothetical model, and that is also consistent with standard regulatory practices, is to use an overall rate of return based upon the rates of return authorized for the seven RHCs and GTE. This will base the "all other" rate of return on actual data reflecting competitively-determined costs of capital and capital structures. It provides a suitable surrogate for a competitive marketplace cost of capital while avoiding the administrative difficulty of examining books and records of about 1,000 separate entities, which lack a competitive marketplace cost of capital.

The Commission should apply the average of the individually established rates of return for the groups of telephone companies that have a competitively determined cost of capital to the rate base of the REA companies. The average return avoids over-recovery and protects customers by reflecting the risk of small companies conservatively.

Because the capital costs and capital structure of REA Borrowing companies cannot be understood except in the context of specific government programs designed to promote service, and do not reflect the influences and costs of competitive money markets, the rate of return allowed on the rate base of the "all other" group -- and, therefore, charged to interstate carriers -- should not be based upon their embedded cost of capital. Rather they should be allowed the opportunity to earn a rate of return on their interstate rate bases which is equal to the average of the rates of return on assets of the groups that do have access to competitive national capital markets.

The highly-leveraged capital structures, low costs of debt of REA borrowers, and resulting overall cost of capital exist because of specific government policies and programs. No company that secures its capital needs from the competitive marketplace relies as heavily upon debt as do the REA Borrowing companies, as can be seen in Table 2. In my opinion, if rural telephone companies had to raise money in the competitive marketplace, their costs would be substantially higher and the amount they could borrow would be less, so that the overall cost of capital of small rural companies would be higher than that of many other firms serving more urbanized areas.

In addition, the realized capital costs of rural telephone companies are not market-determined costs, and their capital structures could not be duplicated by a firm borrowing from private lenders in competitive money markets. In short, REA borrowers have a subsidized cost of capital that is not primarily determined by market forces. Under these circumstances, the Commission should not use the subsidized cost of capital as a basis for determining the return on rate base that a firm should earn.

The RHCs and GTE obtain their capital needs from competitive markets and establish capital structures that reflect the influences of these markets. In consequence, the costs of capital that will be prescribed by the Commission for these companies will be more likely to reflect accurately the costs that currently prevail in the competitive marketplace. As a result, the rate of return for these companies is a more accurate measure of competitively-obtained funds than are the embedded costs and actual capital structures of REA borrowers.

This approach has several advantages. It avoids penalizing rural subscribers of these companies by forcing increases to local rates through residual state ratemaking. In addition, it provides an incentive and opportunity for the small companies to build up reserves, generate capital internally and improve their capital structure so that borrowing in the capital market may become a realistic alternative.

My recommended approach also avoids the problem that if rural companies are permitted to earn only enough to recover their "actual" cost of debt and cost of equity, the benefit of their ability to secure low cost funds from the government would accrue to some other carrier and not to their subscribers, in direct contravention of the intent of Congress and the REA's policies. This result would occur because the interstate long-distance carriers will charge subscribers a pre-set rate. These carriers would pay less of this money to rural companies because of their low capital costs under several other alternative rate of return approaches than they would under my recommendation, and would simply retain the difference. In this way the interstate carriers and not rural telephone subscribers will obtain the benefit of the low cost government funds. The government programs are meant to assist rural subscribers, not long distance carriers.

Also, this approach avoids imposing high capital costs upon rural subscribers. As I have outlined above, the cost of money to small and rural companies in competitive markets is higher than the cost of money to the large telephone systems. A hypothetical or actual calculation would have to reflect this situation. My recommended approach permits the small companies to earn only the same rate of return on rate base as the large firms earn. It would not lead to unreasonably high rates to consumers, nor would it provide unreasonable compensation to investors.

Finally, it is worth noting that my recommendation, like the approach suggested by the Commission in the Notice, is similar to the traditional method of using one overall rate of return. This feature is attractive because it minimizes the adverse effects on rural subscribers and companies associated with instituting the new, tariff-based interstate compensation method.

VI. RATE BASE VERSUS EQUITY ONLY

The Commission asks if it should prescribe an overall rate of return on rate base for each group or should prescribe only a return on equity for each group to use in conjunction with its own cost of debt and capital structure. I recommend that the Commission continue the traditional regulatory practice of prescribing a overall rate of return on assets.

Simply looking at "return on equity" determined for a group can distort the return for an individual carrier to the prejudice of the company or its customers.

Moreover, these are not simple questions easily decided by examining a company's books of account and leaving the process at that. In particular, the issue of a proper capital structure can be difficult to decide, if the actual structure is not used. The "embedded cost of debt" figure shown on a company's books could be altered by excluding old debt about to be retired, or including new debt (or debt about to be incurred) in order to reflect debt costs during the time the new rates are in effect.

The earlier discussion in this testimony shows why the cost of equity for small companies would be high, but difficult to measure, since marketplace measures are generally absent.

Establishing only a cost of equity and using actual costs of debt and capital structures is also contrary to the well-established regulatory practice of examining all elements of a carrier's rate of return, not just a portion of it.

The Commission's "High Cost Factor" return component in CC Docket No. 80-286 illustrated the errors in this method by its use of actual cost of debt and capital structure with the AT&T equity return component, 17.4%. Under this method, a company with 100% equity, of which there are a few, obtains an effective rate of return of 17.4%, while a highly leveraged REA Borrower company with 80% debt at 5% can obtain the equivalent of only a 7.48% rate of return. In case one, the charge reflected in the pool is unfair to customers; in case 2 the amount drawn from the pool is too low to maintain the company's financial position.

VII. CONCLUSION

The Commission is now engaged in the extremely difficult task of designing a set of rules and procedures that will allow the telecommunications industry to become more competitive. These rules and procedures, however, must be consistent with preserving universal telephone service. While rates may become more variable in the future, and companies will experiment with offering different services, care must be exercised to be certain that small carriers servicing small areas with low population density are not forced to charge unreasonable rates to their subscribers.

My recommendation is to set the rate of return for the "all other" group at the average of all the individually established rates of return. This will, I believe, balance the needs of small companies with the needs of both universal service and competition in telecommunications. It is also consistent with the established Congressional policy of extending low cost money to finance service in rural areas. The Commission will also avoid the administrative nightmares of attempting to establish rates of return for a multitude of small companies, while assuring that the rate of return used for these carriers is not arbitrary.

CC Docket No. 84-800
Testimony of E.M. Lerner
on behalf of RTC

TABLE 1

Amounts Invested in Construction and Expansion by REA Financed Companies

Year	Gross Additions
1980	$987,898,883
1981	$920,230,000
1982	$944,699,485
1983	$962,069,724

Source: ASR - REA

CC Docket No. 84-800
Testimony of E.M. Lerner
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TABLE 2

Embedded Cost of Debt of Selected Companies

	Cost
REA Companies	6.21%
Bell Oper. Cos.	9.33
Holding Companies:	
General	8.53
United	8.94
Continental	7.98
Centel	8.83
ALLTEL	7.71
Independents:	
Cincinnati	9.11
Rochester	6.72

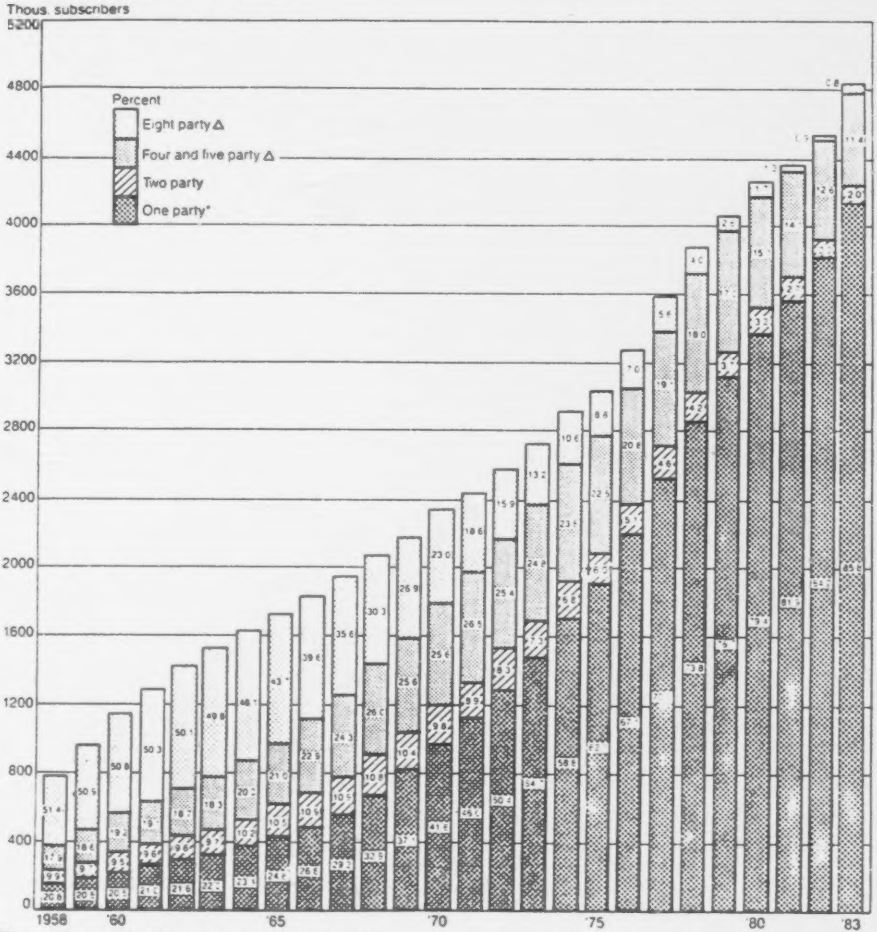
Source: ASR-REA
SR-USTA

1983 Statistical Report,
Rural Telephone Borrowers
REA Bulletin No. 300-4

TABLE 3

Chart 3

Number of Total Subscribers by Grade
Borrowers as of December 31, 1958-83☐



☐Data for 1977 excludes Guam 501 for which complete data was not available.
△See "Changes in Report," pages 4 and 5 of the 1964 report, for differences in composition of items between 1964 and prior year data. Eight party includes service stations (switchers).
* Includes pay stations, PBX and PABX systems, key systems, and radiotelephones.

CC Docket No. 84-800
Comments of the Rural Telephone
Coalition
APPENDIX B

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November 9, 1984

Analysis Of The Impact On Small Telephone Companies Of Alternative Methods For Calculating Interstate Rates of Return

CC Docket No. 84-800
For
The Rural Telephone Coalition

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Summary

The Rural Telephone Coalition engaged Ernst & Whinney's Telecommunications Group to perform an analysis of the possible effects on small telephone companies of calculating interstate rates of return in the manner recently proposed by the Federal Communications Commission. The Commission's proposals were set forth in its Notice of Proposed Rulemaking in CC Docket No. 84-800. In general, the proposals would result in a more individualized rate of return for each of the nation's telephone companies. Instead of authorizing a single interstate rate of return for all companies, as has been done in the past, the FCC would prescribe different rates of return for various groups of telephone companies. The rate prescribed for all of the companies in a particular group would be based on the the financial characteristics of the companies in that group.

To illustrate the impact that such a change might have on rural telephone companies, Ernst & Whinney selected fifteen companies of various types (e.g., cooperative, commercial, and system companies) for analysis. Recent financial data were then used to calculate the rate of return that would be authorized for each of these companies if it were grouped with other companies with the same financial characteristics. This new rate of return was then used to compute the amount of interstate toll revenue that each company would have been allowed to earn had that rate of return been in effect during the most recent period for which actual data were available. The recalculated revenue figure was then compared to the actual revenue figure.

We found that some small companies would be authorized higher rates of return based on individual prescriptions. These companies are those with unusually low proportions of debt in their capital structures, and those who have not received low-cost loans from the Rural Electrification Administration or the Rural Telephone Bank. The majority of small, rural companies would experience decreases in their interstate earnings. They typically have a large proportion of low-cost debt in their capital structures, which would lead to the prescription of lower rates of return. Should these companies fail to actually earn the interstate returns that are authorized, as has consistently been the case, the interstate contribution to their returns on equity would likely be less than could be earned by investing in "risk-free" government securities. This could lead to a significant reduction in incentives to invest in these companies for the purposes of maintaining and improving service.

Objective of the Analysis

The FCC has proposed sweeping changes in the way that it prescribes rates of return for regulated companies engaged in the provision of interstate services. These companies include not only AT&T and the large holding companies with telephone operations in several states, but also the hundreds of small, predominantly rural telephone companies. This analysis focuses on the effects that the proposed changes would have on small telephone companies. The objective is to show the impact on the companies' interstate revenue requirements of the FCC's proposals, and the magnitude of intrastate toll or local rate increases that could be required as a consequence.

Methodology

There is no source of data for all telephone companies available to Ernst & Whinney that would make it possible to perform a comprehensive analysis of the effects of the proposed changes on all small companies. We therefore selected fifteen small companies for analysis. These companies are geographically diverse, range in size from under one thousand access lines to well over ten thousand access lines, and have a wide range of financial characteristics. Analyses of the effects on these companies of the changes proposed in CC Docket No. 84-800 provide examples of the likely effects on the hundreds of similar companies providing telephone service in rural areas across the country.

Three of the companies selected are cooperatives. All three of them are REA borrowers. The other relevant characteristics of these cooperatives are summarized in the following table.

Company	Capital Structure	Tax Status	Access Lines	State
A	84% Debt	Taxable	>10,000	SD
B	89% Debt	Taxable	< 1,000	NE
C	64% Debt	Nontaxable	<10,000	IL

Eight of the companies selected are commercial companies that are not part of any holding company group. Their characteristics are summarized in the following table.

Company	Capital Structure	REA Borrower?	Access Lines	State
D	58% Debt	Yes	<10,000	KS
E	72% Debt	Yes	<10,000	KS
F	31% Debt	No	<10,000	KS
G	41% Debt	No	<10,000	MO
H	83% Debt	Yes	<10,000	NM
I	59% Debt	Yes	< 1,000	WA
J	88% Debt	Yes	< 1,000	MI
K	65% Debt	Yes	<10,000	VT

The remaining four companies are commercial companies that are part of holding company groups. Their characteristics are summarized in the following table.

Company	Capital Structure	REA Borrower?	Access Lines	State
L	62% Debt	Yes	<10,000	NE
M	66% Debt	Yes	<10,000	WI
N	83% Debt	Yes	<10,000	SC
O	59% Debt	Yes	>10,000	TN

Each of the fifteen companies provided the financial information needed to calculate the company's cost of debt. The actual cost of debt was used to calculate each company's weighted average cost of capital. The companies' stock is not publicly traded, so it was necessary to assume a cost of common equity for use in calculating the weighted average cost of capital. The assumed cost of common equity is 17.4 percent, which was the rate determined to be appropriate for AT&T in the most recent (1981) interstate rate of return prescription.

In addition to the information on capital structure and costs of capital, each company provided detailed information from its most recently completed separations study. This included separated rate base figures, tax data, and information on adjustments to intrastate and interstate revenue requirements. All of this information was provided with the understanding that the companies' names would not be revealed.

Ernst & Whinney then recalculated each company's revenue requirements for both intrastate and interstate toll services. This was done by substituting the interstate rate of return calculated based on each company's actual cost of debt and capital structure in place of the interstate rate of return that was in actually in effect. (The capital structure and cost of debt used in calculating the new rate of return were those reported for the time period corresponding most closely to the period of the separations study.) The interstate rate of return that was actually in effect varies from state to state, as is described below.

Overall Results

The amount of toll settlements an independent telephone company receives is designed to recover the company's toll-related operating expenses and to provide a return on the investment in assets used to provide toll services. Historically, there have been two predominant methods used to determine the applicable intrastate and interstate rates of return: the "separated" method and the "overall" method. The separated method uses AT&T's or the Bell Operating Company's earned rate for interstate services as the basis for the interstate rate of return, and the Bell Operating Company's earned rate for intrastate toll services as the basis for the intrastate rate of return. The overall method uses the Bell Operating Company's total company earned rate in a particular state as both the interstate and intrastate rate of return for the independent company's toll operations in that state.

The FCC's proposals in CC Docket No. 84-800 would not alter the recovery of an independent company's toll-related operating expenses. However, they would change the company's interstate revenue requirement by changing the interstate rate of return from AT&T's or the BOC's earned interstate rate or the BOC's overall earned rate to a rate based on the costs of capital of a group of companies with similar financial characteristics.

For a group of small companies with generally high costs of debt and average debt ratios, the effect of this change should not be critical. However, for those small companies that have low costs of debt, including most rural telephone companies, the effect on their interstate revenue requirements could be devastating. Small, rural telephone companies typically have low costs of debt because they have borrowed funds from the Rural Electrification Administration (REA). The REA has promoted the availability of high-quality electrical and telephone service in rural areas by lending funds at low interest rates to utilities willing to serve these areas. The small telephone companies use these funds to build reliable facilities that provide service comparable to that offered in the more urban areas.

For small companies with low costs of debt that may therefore be authorized lower interstate rates of return, the most damaging effect may be the upward pressure on intrastate toll and local rates that could result. For example, our analysis indicates that one small company in Michigan could experience a decrease in its interstate revenue requirement of over 13 percent. This lost revenue could not be recovered through intrastate toll revenues unless the state commission authorized such a recovery. The only other alternative for recouping all or part of the lost revenue would be through an increase in local rates. Local revenues would have to increase over 10 percent to recover the full amount of the decreased interstate revenue requirement. This, too, would require state commission authorization. Should the state commission choose not to allow recovery of the lost interstate revenues from state toll or local rates, the company's revenue and cash flow would be substantially reduced. This may reduce incentives or the ability to improve quality of service.

The Michigan company in our example has a very low proportion of equity in its capital structure, only 12 percent. Because of this, the equity return obtained from interstate earnings is very sensitive to fluctuations in the earned interstate rate of return. If its earned rate of return were to fall only 1.5 percentage points below its "authorized" rate of return, interstate results would contribute to the company's equity return at a rate far below that which the stockholders could obtain from investing in Treasury bills. Actual interstate rates of return have consistently fallen at least 1.5 points below the authorized level, so such a result is more than a remote possibility. In these circumstances, additional equity investments to improve service could become much less attractive to the company's owners.

It should be noted that there is a difference between authorized rates and earned rates of return. The comparisons presented in this analysis would show greater revenue losses for most companies and smaller gains for the rest if the basis for the comparisons was the 12.75 percent interstate rate of return that all of these companies were authorized to earn through the settlements process. Their interstate earnings were actually limited to the rates of return achieved by AT&T or by the Bell Operating Companies in their states. As shown in Table 1 following, which summarizes the results of the fifteen analyses, the actual rates of return were between 1.86 and 3.70 percent below the authorized rate of 12.75 percent. Table 1 compares achieved rates of return to recalculated rates of return which incorporate individual company cost of debt and capital structure and a 17.4 percent return on equity. Table 2 substitutes the authorized interstate rate of return of 12.75 percent for the achieved rate of return. Table 3 shows the potential effect on local revenues of a decrease in the interstate rate of return.

Table 1

SUMMARY OF IMPACTS ON FIFTEEN SMALL COMPANIES

(Actual Rate of Return)

	Company	Actual Rate of Return Interstate	Recalculated Rate of Return Interstate	Percent Change Rate of Return Interstate (Decr.)	Percent Change Revenue Requirement Interstate (Decr.)
(Cooperatives)	A	10.87%	4.48%	(59%)	(28%)
	B	10.73%	3.65%	(66%)	(29%)
	C	10.75%	8.11%	(25%)	(5%)
(Commercial Companies)	D	10.65%	8.49%	(20%)	(8%)
	E	9.06%	8.62%	(5%)	(2%)
	F	10.82%	15.22%	41%	5%
	G	10.73%	13.89%	29%	8%
	H	10.77%	5.28%	(51%)	(36%)
	I	9.05%	8.78%	(3%)	(1%)
	J	10.73%	6.46%	(40%)	(14%)
	K	10.73%	9.73%	(9%)	(4%)
(System Companies)	L	10.86%	7.79%	(28%)	(12%)
	M	10.87%	10.05%	(8%)	(4%)
	N	10.74%	6.06%	(44%)	(19%)
	O	10.89%	12.96%	19%	11%

SUMMARY OF IMPACTS ON FIFTEEN SMALL COMPANIES

(Authorized Rate of Return)

Table 2

	Company	Authorized Rate of Return Interstate	Recalculated Rate of Return Interstate	Percent Change Rate of Return Interstate (Decr.)
(Cooperatives)	A	12.75%	4.48%	(65%)
	B	12.75%	3.65%	(71%)
	C	12.75%	8.11%	(36%)
(Commercial Companies)	D	12.75%	8.49%	(33%)
	E	12.75%	8.62%	(32%)
	F	12.75%	15.22%	19%
	G	12.75%	13.89%	9%
	H	12.75%	5.28%	(59%)
	I	12.75%	8.78%	(31%)
	J	12.75%	6.46%	(49%)
	K	12.75%	9.73%	(24%)
(System Companies)	L	12.75%	7.79%	(39%)
	M	12.75%	10.05%	(21%)
	N	12.75%	6.06%	(52%)
	O	12.75%	12.96%	2%

Table 3

POTENTIAL INCREASE IN LOCAL REVENUES DUE TO REDUCED INTERSTATE RATE OF RETURN*

	Company	Percent Increase
(Cooperatives)	A	46.5%
	B	33.3%
	C	3.5%
(Commercial Companies)	D	9.0%
	E	1.8%
	F	No Increase
	G	No Increase
	H	222.0%
	I	0.9%
	J	10.5%
	K	10.5%
(System Companies)	L	14.0%
	M	1.8%
	N	8.2%
	O	No Increase

* This chart is based on the assumption that the respective state commissions will allow recovery of reduced interstate revenue from local ratepayers.

Table 1 shows that there is a wide range of impacts of calculating rates of return on a more individualized basis. The first and second columns of the table show the interstate rates of return being compared: the most recent earned rate versus the rate that would have been authorized for that period based on actual company cost of debt (and 17.4 percent cost of common equity). The third column shows the percentage increase or decrease in the rate of return, comparing the second column with the first. The last column shows the percentage increase or decrease in the companies' interstate revenue requirements. The direction of change is the same as that of the rate of return, but the magnitude is always less. This is because the revenue requirement includes operating expenses and other items that are not affected by a change in the rate of return.

Three of the fifteen companies analyzed (F, G, and O) would have been authorized higher rates of return than they earned. These companies have the three highest costs of debt; they also have the three lowest proportions of debt in their capital structures. They are the only companies whose recalculated rates exceed 12.75 percent. Two of the three are commercial companies that have no REA debt; the third is a relatively large system company.

The other twelve companies all show decreases in their interstate revenues as a result of the more individualized rate of return computation. Those that experience the most significant reductions (A, B, H, J, and N) have the highest proportion of debt in their capital structures. Those that experience the least severe reductions (E, I, K, and M) have higher costs of debt and/or a lower proportion of debt in their capital structures. The remaining companies (C, D, and L) suffer substantial losses, but less than the first group because they have lower proportions of debt. All twelve of the companies that would experience decreases in their interstate rates of return are REA borrowers.

Individual Company Results

- Cooperatives

Company A is a taxable cooperative in South Dakota serving twenty-seven exchanges and more than ten thousand access lines. Company A's capitalization is 84 percent debt, which is a combination of REA and Rural Telephone Bank (RTB) financing. Our analysis was based on Company A's separated results for the year ending December 31, 1983. Company A's toll rate of return was determined through the use of the "separated" method. The 10.87 percent interstate rate of return is based on AT&T's earned rate of return for that period. Company A's 11.23 percent intrastate rate of return is based on Northwestern Bell's earned rate of return for intrastate toll in the state of South Dakota. The separated toll revenue requirement for Company A was calculated as follows:

Company A: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$8,095,829	$7,374,055	$15,469,884
2.	Rate of Return	.108671	.112323	
3.	Return on Rate Base (1x2)	$ 879,785	$ 828,278	$ 1,708,063
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	29,781	27,338	57,119
6.	Net Return (3-4-5)	$ 850,004	$ 800,940	$ 1,650,944
7.	State Income Tax	0	0	0
8.	Federal Income Tax	526,806	501,720	1,028,526
9.	Operating Expenses	2,026,446	1,917,743	3,944,189
10.	Gross Receipts Tax	105,255	99,599	204,854
11.	Rev. Requirements (6+7+8+9+10)	$3,508,511	$3,320,002	$ 6,828,513

Company A's weighted average cost of capital was 4.48 percent in 1982. (The 1982 financial statements were the most recent figures available to us). This figure is based on an assumed return on common equity of 17.4 percent and the company's actual cost of debt, which was 2.0 percent. The recalculated separated toll revenue requirement is as follows:

Company A: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$8,095,829	$7,374,055	$15,469,884
2.	Rate of Return	.044800	.112323	
3.	Return on Rate Base (1x2)	$ 362,693	$ 828,278	$ 1,190,971
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	29,781	27,338	57,119
6.	Net Return (3-4-5)	$ 332,912	$ 800,940	$ 1,133,852
7.	State Income Tax	0	0	0
8.	Federal Income Tax	98,501	491,520	590,021
9.	Operating Expenses	2,026,446	1,917,743	3,944,189
10.	Gross Receipts Tax	76,016	99,285	175,301
11.	Rev. Requirements (6+7+8+9+10)	$2,533,875	$3,309,488	$ 5,843,363

The decrease in the interstate rate of return results in a decrease in the interstate revenue requirement of $974,636, or 27.8 percent. Although the intrastate rate of return was not changed, the intrastate revenue requirement decreased $10,514 because of a decrease in federal income taxes and gross receipts taxes as a result of the lower overall return on the toll rate base.

Should the South Dakota Public Utilities Commission (SDPUC) allow Company A to recover its lost interstate revenues through rates under the commission's jurisdiction, it would mean an increase in intrastate toll or local rates. If the revenue deficiency were to be recovered through local rates, a 46.5 percent increase in Company A's local revenues would be required. If the state commission did not allow recovery of the lost interstate revenues from state (toll or local) rates, the company's revenue and cash flow would be substantially reduced. This may reduce the ability or incentive to improve quality of service.

Company B is a taxable cooperative in Nebraska with one exchange serving less than one thousand access lines. Company B's capital structure is 89 percent debt, which consists entirely of REA financing. Our analysis is based on the company's separated results for the year ending December 31, 1982, which are the most current results available.

The "separated" method was used to determine Company B's toll rates of return. The interstate rate of 10.73 percent is based on AT&T's earned rate of return for the period, and the intrastate rate of 7.64 percent is based on Northwestern Bell's rate of return for intrastate toll in the state of Nebraska. The revenue requirements were developed as follows:

Company B: 1982 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$520,346	$420,386	$940,732
2.	Rate of Return	.107339	.076362	
3.	Return on Rate Base (1x2)	$ 55,853	$ 32,101	$ 87,954
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	729	589	1,318
6.	Net Return (3-4-5)	$ 55,124	$ 31,512	$ 86,636
7.	State Income Tax	2,342	1,206	3,548
8.	Federal Income Tax	13,765	7,091	20,856
9.	Operating Expenses	107,502	92,682	200,184
10.	Rev. Requirements (6+7+8+9)	$178,733	$132,491	$311,224

Company B's weighted average cost of capital was 3.65 percent in 1982. This figure was developed using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 2.0 percent. Company B's cost of capital is significantly lower than many other companies analyzed because its relatively high debt is financed entirely at a low cost. The recalculated separated revenue requirement is as follows:

Company B: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$520,346	$420,386	$940,732
2.	Rate of Return	.036500	.076362	
3.	Return on Rate Base (1x2)	$ 18,993	$ 32,101	$ 51,094
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	729	589	1,318
6.	Net Return (3-4-5)	$ 18,264	$ 31,512	$ 49,776
7.	State Income Tax	345	1,036	1,381
8.	Federal Income Tax	1,559	4,683	6,242
9.	Operating Expenses	107,502	92,682	200,184
10.	Rev. Requirements(6+7+8+9)	$127,670	$129,913	$257,583

The decrease in Company B's interstate rate of return from 10.73 percent to 3.65 percent leads to a decrease in the interstate revenue requirement of $51,063, or 28.6 percent. Despite no change in the intrastate rate of return, the intrastate revenue requirement decreased $2,578. The change in the intrastate revenue requirement is attributable to a decrease in state and federal income taxes as a result of the lower overall company return on toll rate base.

The Nebraska Public Service Commission (NPSC) has the authority to authorize rate increases of intrastate toll and local rates. Should the NPSC authorize a local rate increase for Company B to recover all of its lost interstate toll revenues, an increase of 33.3 percent in Company B's local revenues would be required. As was the case with Company A, if the state commission does not allow recovery of the lost interstate revenues from state (toll or local) rates, Company B's revenue and cash flow would be substantially reduced. This may reduce the ability or incentive to improve quality of service.

Company C is a nontaxable cooperative in Illinois with seven exchanges serving fewer than ten thousand access lines. Company C's capitalization is 64 percent debt, which consists of a combination of REA and RTB financing. Our analysis was based on the company's separations data for the year ending June 30, 1983.

The "separated" method was used to determine this company's toll rates of return. Company C's interstate rate of return is 10.75 percent, which is based on Illinois Bell's earned rate of return on interstate toll. Company C's intrastate rate of return is 10.55 percent, which is based on Illinois Bell's earned rate of return on intrastate toll. The 1983 separated revenue requirement was developed as follows:

Company C: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$430,219	$1,112,680	$1,542,899
2.	Rate of Return	.107500	.105500	
3.	Return on Rate Base (1x2)	$ 46,247	$ 117,386	$ 163,633
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$46,247	$ 117,386	$ 163,633
7.	State Income Tax	0	0	0
8.	Federal Income Tax	0	0	0
9.	Operating Expenses	190,108	530,814	720,922
10.	Gross Receipts Tax	0	16,891	16,891
11.	Rev. Requirements (6+7+8+9+10)	$236,355	$ 665,091	$ 901,446

Company C's weighted average cost of capital was 8.11 percent in 1982. (The 1982 financial statements were the most recent results available to us.) This rate was calculated using a return of 17.4 percent on common equity and the company's actual cost of debt, which was 2.9 percent. The recalculated separated revenue requirements are as follows:

Company C: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$430,219	$1,112,680	$1,542,899
2.	Rate of Return	.081100	.105500	
3.	Return on Rate Base (1x2)	$ 34,891	$ 117,386	$ 152,277
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 34,891	$ 117,386	$ 152,277
7.	State Income Tax	0	0	0
8.	Federal Income Tax	0	0	0
9.	Operating Expenses	190,108	530,814	720,922
10.	Gross Receipts Tax	0	16,891	16,891
11.	Rev. Requirements (6+7+8+9+10)	$224,999	$ 665,091	$ 890,090

As a result of a decrease in the interstate toll rate of return from 10.75 percent to 8.11 percent, Company C would lose $11,356 (4.8 percent) of its interstate revenue requirement. The intrastate revenue requirement is unchanged.

Company C can attempt to recover the lost revenue from two sources: increased intrastate toll rates or increased local rates. Both avenues require state commission approval. Should the commission authorize a recovery through increased local rates, Company C would need a 3.5 percent increase in local revenues to recoup the entire interstate revenue loss.

- Commercial Companies

Company D, a commercial company in Kansas, operates six exchanges serving fewer than ten thousand access lines. Company D's capitalization is 58 percent debt, which consists entirely of REA financing. Our analysis was based on the company's separations data for the eighteen months ending December 31, 1983.

The "separated" method was used to determine Company D's toll rates of return for the separations and settlements process. Company D's rates of return were 10.65 percent for interstate and 10.25 percent for intrastate. Company D's 1983 separations study was actually for an eighteen month period. We therefore made appropriate adjustments to restate the data on a twelve-month basis. Because Company D's 1983 data include the last six months of 1982, its rates of return are different from those of the other Kansas companies analyzed. Company D's revenue requirements were developed as follows:

Company D: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$590,705	$1,134,182	$1,724,887
2.	Rate of Return	.106467	.102533	
3.	Return on Rate Base (1x2)	$ 62,891	$ 116,292	$ 179,183
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	4,211	8,002	12,213
6.	Net Return (3-4-5)	$ 58,680	$ 108,290	$ 166,970
7.	State Income Tax	5,847	10,719	16,566
8.	Federal Income Tax	32,515	59,618	92,133
9.	Operating Expenses	174,472	374,953	549,425
10.	Rev. Requirements (6+7+8+9)	$271,514	$ 553,580	$ 825,094

Company D's weighted average cost of capital was 8.49 percent in 1983. This rate was calculated using an assumed cost of equity of 17.4 percent and the company's actual cost of debt, which was 2.0 percent. The recalculated revenue requirements are as follows:

Company D: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$590,705	$1,134,182	$1,724,887
2.	Rate of Return	.084900	.102533	
3.	Return on Rate Base (1x2)	$ 50,151	$ 116,292	$ 166,443
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	4,211	8,002	12,213
6.	Net Return (3-4-5)	$ 45,940	$ 108,290	$ 154,230
7.	State Income Tax	4,322	10,585	14,907
8.	Federal Income Tax	23,736	58,128	81,864
9.	Operating Expenses	174,472	374,953	549,425
10.	Rev. Requirements (6+7+8+9)	$248,470	$ 551,956	$ 800,426

The decrease in the interstate rate of return from 10.65 percent to 8.49 percent results in a decrease in the interstate revenue requirement of $23,044, or 8.5 percent. Although the intrastate rate of return is unchanged, the intrastate revenue requirement decreased $1,624. The intrastate change is due to the decrease in federal and state income taxes as a result of a lower overall return on the toll rate base.

The Kansas Corporation Commission (KCC) has the authority to allow Company D to recover its lost interstate revenues through rates under KCC jurisdiction, namely the intrastate toll and local rates. Should the KCC authorize a recovery through local rates for example, Company D would require an increase of 9.0 percent in local revenues to recoup its lost interstate income. Should the state commission not allow recovery of the lost interstate revenues from state rates, the company's revenue and cash flow would be substantially reduced. This may reduce incentives or the ability to improve quality of service.

Company E is a commercial company in Kansas which operates twelve exchanges serving fewer than ten thousand access lines. Company E's capital structure is 72 percent debt, which is a combination of REA and RTB financing. Our analysis was based on the company's separated results for the year ending December 31, 1982.

In Kansas, the "separated" method has become the predominant method used to determine toll rates of return for the separations and settlements process. Historically, however, the "overall" method has been in use. In 1982, Company E (and a number of other Kansas independent telephone companies) submitted cost studies using an authorized "overall" company rate of return from Southwestern Bell. Therefore, Company E's rate of return of 9.06 percent used for both interstate and intrastate is based on Southwestern Bell's overall company rate of return for operations in the state of Kansas. The 1982 revenue requirements were developed as follows:

Company E: 1982 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$1,128,236	$2,256,153	$3,384,389
2.	Rate of Return	.090600	.090600	
3.	Return on Rate Base (1x2)	$ 102,217	$ 204,407	$ 306,624
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	4,390	8,884	13,274
6.	Net Return (3-4-5)	$ 97,827	$ 195,523	$ 293,350
7.	State Income Tax	6,038	12,021	18,059
8.	Federal Income Tax	33,639	66,978	100,617
9.	Operating Expenses	358,731	754,245	1,112,976
10.	Rev. Requirements (6+7+8+9)	$ 496,235	$1,028,767	$1,525,002

Company E's weighted average cost of capital was 8.62 percent in 1982. This figure was developed using a 17.4 percent return on common equity and the company's actual cost of debt, which was 5.2 percent. The recalculated revenue requirements are as follows:

Company E: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$1,128,236	$2,256,153	$3,384,389
2.	Rate of Return	.086200	.090600	
3.	Return on Rate Base (1x2)	$ 97,254	$ 204,407	$ 301,661
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	4,390	8,884	13,274
6.	Net Return (3-4-5)	$ 92,864	$ 195,523	$ 288,387
7.	State Income Tax	5,438	11,966	17,404
8.	Federal Income Tax	30,161	66,359	96,520
9.	Operating Expenses	358,731	754,245	1,112,976
10.	Rev. Requirements (6+7+8+9)	$ 487,194	$1,028,093	$1,515,287

The decrease in the interstate rate of return from 9.06 percent to 8.62 percent leads to a decrease in the interstate revenue requirement of $9,041. Despite no change in the intrastate rate of return, the intrastate revenue requirement decreased $674 due to a decrease in state and federal income taxes as a result of a lower overall return on toll rate base.

Should the Kansas Corporation Commission (KCC) allow Company E to recover its lost interstate revenues, the result would be an increase in intrastate toll or local rates. In the event that the KCC authorizes an increase in local rates, Company E would require an increase of 1.8 percent in local revenues to recoup the lost interstate revenue requirement.

Company F is another commercial company in Kansas. It has one exchange serving fewer than ten thousand access lines. Company F is not an REA borrower. This company's capital structure is 31 percent debt, consisting of long-term notes payable to vendors, banks and private sources. Our analysis was based on the company's separations data for the year ending December 31,1983.

The "separated" method of determining toll rates of return was used for this company. Therefore, Company F's 10.82 percent interstate rate of return for 1983 was based on AT&T's earned rate of return for that same period. Company F's intrastate rate of return was 10.64 percent, based on Southwestern Bell's earned rate of return on intrastate toll in Kansas. Company F's separated revenue requirements for 1983 were developed as follows:

Company F: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$420,504	$225,670	$646,174
2.	Rate of Return	.108200	.106400	
3.	Return on Rate Base (1x2)	$ 45,498	$ 24,012	$ 69,510
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 45,498	$ 24,012	$ 69,510
7.	State Income Tax	1,468	745	2,213
8.	Federal Income Tax	1,685	428	2,113
9.	Operating Expenses	333,154	199,428	532,582
10.	Rev. Requirements (6+7+8+9)	$381,805	$224,613	$606,418

Company F's weighted average cost of capital was 15.22 percent in 1983. This figure is unusually high because of Company F's high equity (69 percent), with an assumed cost of 17.4 percent, and because of its relatively high interest rates on long-term notes (weighted average cost of debt is 10.4 percent). The recalculated separated revenue requirements are as follows:

Company F: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$420,504	$225,670	$646,174
2.	Rate of Return	.152200	.106400	
3.	Return on Rate Base (1x2)	$ 64,001	$ 24,012	$ 88,013
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 64,001	$ 24,012	$ 88,013
7.	State Income Tax	2,399	745	3,144
8.	Federal Income Tax	2,935	428	3,363
9.	Operating Expenses	333,154	199,428	532,582
10.	Rev. Requirements (6+7+8+9)	$402,489	$224,613	$627,102

The increase in the interstate rate of return from 10.82 percent to 15.22 percent results in an increase in the interstate revenue requirement of $20,684, or approximately 5.4 percent. The intrastate revenue requirement was unchanged.

Company F is an example of a company with an above-average percentage of equity and a cost of debt which is more typical of the larger companies. Because of these characteristics, the company will benefit if its rate of return is computed on an individual basis.

Company G is a commercial company in Missouri with eight exchanges, serving fewer than ten thousand access lines. The company's capitalization is 41 percent debt, which consists entirely of loans from banks and equipment vendors. This company has no REA or RTB financing. Our analysis was based on the company's separations data for the year ending December 31, 1982, which is the most recent year for which a completed study is available.

In the case of this company, the "separated" method of determining toll rates of return is used. Company G's interstate rate of return for 1982 was therefore 10.73 percent, based on AT&T's earned rate for the period. Company G's intrastate rate of return was 9.55 percent, based on Southwestern Bell's earned rate of return on intrastate toll in Missouri. Company G's revenue requirements were computed as follows:

Company G: 1982 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$1,280,546	$3,108,794	$4,389,340
2.	Rate of Return	.107300	.095500	
3.	Return on Rate Base (1x2)	$ 137,402	$ 296,889	$ 434,291
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	6,087	14,639	20,726
6.	Net Return (3-4-5)	$ 131,315	$ 282,250	$ 413,565
7.	State Income Tax	4,641	9,276	13,917
8.	Federal Income Tax	52,224	98,774	150,998
9.	Operating Expenses	742,256	1,721,189	2,463,445
10.	Rev. Requirements (6+7+8+9)	$ 930,436	$2,111,489	$3,041,925

Company G's cost of capital was 13.89 percent in 1983. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual costs of preferred equity (5.5 percent) and debt (9.4 percent). The recalculated revenue requirements are as follows:

Company G: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$1,280,546	$3,108,794	$4,389,340
2.	Rate of Return	.138900	.095500	
3.	Return on Rate Base (1x2)	$ 177,868	$ 296,889	$ 474,757
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	6,087	14,639	20,726
6.	Net Return (3-4-5)	$ 171,781	$ 282,250	$ 454,031
7.	State Income Tax	6,770	9,276	16,046
8.	Federal Income Tax	82,567	98,774	181,341
9.	Operating Expenses	742,256	1,721,189	2,463,445
10.	Rev. Requirements (6+7+8+9)	$1,003,374	$2,111,489	$3,114,863

The increase in the interstate rate of return from 10.73 percent to 13.89 percent leads to an increase in the interstate revenue requirement of $72,938, or 7.8 percent.

Should the state commission choose to adjust rates under its jurisdiction to prevent Company G from earning more revenue than would have been the case without the change in the interstate rate of return, either the intrastate toll settlement or local rates could be reduced. In the event that the revenue increase were to be offset by a decrease in local rates, the required decrease in local revenues would be 5.7 percent.

Company H is a commercial company in New Mexico with nine exchanges serving fewer than ten thousand access lines. The company's capitalization is 83 percent debt, which consists almost entirely of REA financing. Our analysis was based on the company's separations data for the year ending December 31, 1983.

In the case of this company, the "separated" method of determining toll rates of return is used. Company H's interstate rate of return for 1983 was therefore 10.77 percent, based on Mountain Bell's earned interstate rate for the period. Company H's intrastate rate of return was 9.10 percent, based on Mountain Bell's earned rate of return on intrastate toll. Company H's revenue requirements were computed as follows:

Company H: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$9,521,526	$7,859,142	$17,380,668
2.	Rate of Return	.107700	.091000	
3.	Return on Rate Base (1x2)	$1,025,467	$ 715,179	$1,740,646
4.	Interest During Const.	55,887	45,042	100,929
5.	Inv. Tax Credit Amort.	29,652	24,652	54,304
6.	Net Return (3-4-5)	$ 939,928	$ 645,485	$1,585,413
7.	State Income Tax	76,169	49,522	125,691
8.	Federal Income Tax	621,929	404,348	1,026,277
9.	Operating Expenses	1,196,704	1,059,800	2,256,504
10.	Gross Receipts Tax	0	5,410	5,410
11.	Revenue Requirements (6+7+8+9+10)	$2,834,730	$2,164,565	$4,999,295

Company H's cost of capital was 5.28 percent in 1983. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 2.9 percent. The recalculated revenue requirements are as follows:

Company H: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$9,521,526	$7,859,142	$17,380,668
2.	Rate of Return	.052800	.091000	
3.	Return on Rate Base (1x2)	$ 502,737	$ 715,179	$ 1,217,916
4.	Interest During Const.	55,887	45,042	100,929
5.	Inv. Tax Credit Amort.	29,652	24,652	54,304
6.	Net Return (3-4-5)	$ 417,198	$ 645,485	$ 1,062,683
7.	State Income Tax	17,380	38,614	55,994
8.	Federal Income Tax	180,335	400,656	580,991
9.	Operating Expenses	1,196,704	1,059,800	2,256,504
10.	Gross Receipts Tax	0	5,375	5,375
11.	Revenue Requirements (6+7+8+9+10)	$1,811,617	$2,149,930	$ 3,961,547

The decrease in the interstate rate of return from 10.77 percent to 5.28 percent leads to a decrease in the interstate revenue requirement of $1,023,113, or 36.1 percent. Despite the assumption that the intrastate rate of return remains the same, the intrastate revenue requirement decreases by $14,635. This is attributable to the decrease in income and gross receipts taxes that results from the lower overall return on the toll rate base.

Should the state commission choose to adjust rates under its jurisdiction to allow Company H to recover the revenues that would have been recovered through interstate rates, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue reduction were to be offset by an increase in local rates, the required increase in local revenues would be 222 percent. If the state commission does not allow recovery of the lost interstate revenues from state (toll or local) rates, the company's revenue and cash flow would be substantially reduced.

Furthermore, because of Company H's low equity base (17 percent of capital), the equity return obtained from interstate earnings is very sensitive to fluctuations in the earned interstate rate of return. If the company's earned rate of return were to fall only 1.5 percentage points below the "authorized" rate of 5.28 percent, interstate results would contribute to the company's equity return at a rate below that which the stockholders could obtain by investing in Treasury bonds. Actual interstate rates of return have consistently fallen at least 1.5 points below the authorized level, so such a result is not just a remote possibility. Under these circumstances, additional equity investments to improve service become much less attractive to the company's owners.

Company I is a commercial company in Washington with two exchanges serving fewer than one thousand access lines. Company I's capital structure is 59 percent debt, which is a combination of REA and RTB financing. Our analysis was based on the company's separated results for the year ending June 30, 1981, which is the most recent year for which data were available.

Using the "separated" method, Company I's interstate rate of return was determined to be 9.05 percent, based on Pacific Northwest Bell's earned rate of return for interstate operations in Washington. Company I's intrastate rate of return was 9.34 percent, based on Pacific Northwest Bell's earned rate of return on intrastate toll in Washington. Company I's revenue requirements were calculated as follows:

Company I: 1981 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$384,007	$577,154	$961,161
2.	Rate of Return	.090500	.093400	
3.	Return on Rate Base (1x2)	$ 34,753	$ 53,906	$ 88,659
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	1,934	3,013	4,947
6.	Net Return (3-4-5)	$ 32,819	$ 50,893	$ 83,712
7.	State Income Tax	0	0	0
8.	Federal Income Tax	9,130	14,280	23,410
9.	Operating Expenses	177,077	334,643	511,720
10.	Gross Receipts Tax	234	15,361	15,595
11.	Rev. Requirements (6+7+8+9+10)	$219,260	$415,177	$634,437

Company I's weighted average cost of capital was 8.78 percent in 1981. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 2.9 percent. The recalculated revenue requirements are as follows:

Company I: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$384,007	$577,154	$961,161
2.	Rate of Return	.087800	.093400	
3.	Return on Rate Base (1x2)	$ 33,716	$ 53,906	$ 87,622
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	1,934	3,013	4,947
6.	Net Return (3-4-5)	$ 31,782	$ 50,893	$ 82,675
7.	State Income Tax	0	0	0
8.	Federal Income Tax	8,650	14,112	22,762
9.	Operating Expenses	177,077	334,643	511,720
10.	Gross Receipts Tax	233	15,355	15,588
11.	Rev. Requirements (6+7+8+9+10)	$217,742	$415,003	$632,745

The decrease in Company I's interstate rate of return from 9.05 percent to 8.78 percent results in a decrease in the interstate revenue requirement of $1,518. The loss is not substantial because the drop in the interstate rate of return is small and because most of the rate base is allocated to intrastate operations. Although the intrastate rate of return was not changed, the intrastate revenue requirement dropped slightly. This is due to a decrease in federal income taxes and gross receipts taxes as a result of a lower overall return on toll rate base.

Should the Washington Utilities and Transportation Commission choose to adjust rates under its jurisdiction to allow Company I to recover the interstate revenues lost as a result of a lower return on interstate toll, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue loss were to be recovered through an increase in local rates, the necessary increase in local revenues would be less than one percent.

Company J is a commercial company in Michigan with one exchange serving fewer than one thousand access lines. The company's capitalization is 88 percent debt, which consists entirely of REA financing. Our analysis was based on the company's separations data for the year ending December 31, 1982, which is the most recent year for which a completed study is available.

In the case of this company, the "separated" method of determining toll rates of return is used. Company J's interstate rate of return for 1982 was therefore 10.73 percent, based on AT&T's earned rate for the period. Company J's intrastate rate of return was 8.51 percent, based on Michigan Bell's earned rate of return on intrastate toll. Company J's revenue requirements were computed as follows:

Company J: 1982 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$81,133	$621,090	$702,223
2.	Rate of Return	.107345	.085073	
3.	Return on Rate Base (1x2)	$ 8,709	$ 52,837	$ 61,546
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	5	40	45
6.	Net Return (3-4-5)	$ 8,704	$ 52,797	$ 61,501
7.	State Income Tax	0	0	0
8.	Federal Income Tax	1,914	9,068	10,982
9.	Operating Expenses	27,155	199,786	226,941
10.	Rev. Requirements (6+7+8+9)	$37,773	$261,651	$299,424

Company J's cost of capital was 6.46 percent in 1982. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 5 percent. The recalculated revenue requirements are as follows:

Company J: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$81,133	$621,090	$702,223
2.	Rate of Return	.064600	.085073	
3.	Return on Rate Base (1x2)	$ 5,241	$ 52,837	$ 58,078
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	5	40	45
6.	Net Return (3-4-5)	$ 5,236	$ 52,797	$ 58,033
7.	State Income Tax	0	0	0
8.	Federal Income Tax	249	4,393	4,642
9.	Operating Expenses	27,155	199,786	226,941
10.	Rev. Requirements (6+7+8+9)	$32,640	$256,976	$289,616

The decrease in the interstate rate of return from 10.73 percent to 6.46 percent leads to a decrease in the interstate revenue requirement of $5,133, or 13.6 percent. Despite the assumption that the intrastate rate of return remains the same, the intrastate revenue requirement decreases by $4,674. This is attributable to the decrease in federal income taxes that results from the lower overall return on the toll rate base.

Should the state commission choose to adjust rates under its jurisdiction to allow Company J to recover the revenues that would have been recovered through interstate rates, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue reduction were to be offset by an increase in local rates, the required increase in local revenues would be 10.5 percent. Company J is similar to Company H in that it is very highly leveraged. Should the company not be allowed to recover the lost interstate revenue requirement through intrastate rates, it is likely that the interstate contribution to return on equity will fall well below the level that could be earned by investing in government securities. Incentives to invest in the company would be sharply reduced if this were the case.

Company K is a commercial company in Vermont with one exchange serving fewer than ten thousand access lines. The company's capitalization is 65 percent debt, which consists mainly of REA and RTB financing. A relatively small amount of long-term debt is in the form of bank loans. Our analysis was based on the company's separations data for the year ending December 31, 1982, which is the most recent year for which a completed study is available.

In the case of this company, the "separated" method of determining toll rates of return is used. Company K's interstate rate of return for 1982 was therefore 10.73 percent, based on AT&T's earned rate for the period. Company K's intrastate rate of return was 10.07 percent, based on New England Telephone's earned rate of return on intrastate toll. Company K's revenue requirements were computed as follows:

Company K: 1982 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$4,053,402	$273,729	$4,327,131
2.	Rate of Return	.107300	.100700	
3.	Return on Rate Base (1x2)	$ 434,931	$ 27,564	$ 462,495
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	21,158	1,365	22,523
6.	Net Return (3-4-5)	$ 413,773	$ 26,199	$ 429,972
7.	State Income Tax	0	0	0
8.	Federal Income Tax	211,616	12,847	224,463
9.	Operating Expenses	1,460,149	197,770	1,657,919
10.	Rev. Requirements (6+7+8+9)	$2,085,538	$236,816	$2,322,354

Company K's cost of capital was 9.73 percent in 1982. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 5.7 percent. The recalculated revenue requirements are as follows:

Company K: Recalculated Toll Revenue Requirements

	Interstate	Intrastate	Total Toll
1. Rate Base	$4,053,402	$273,729	$4,327,131
2. Rate of Return	.097300	.100700	
3. Return on Rate Base (1x2)	$ 394,396	$ 27,564	$ 421,960
4. Interest During Const.	0	0	0
5. Inv. Tax Credit Amort.	21,158	1,365	22,523
6. Net Return (3-4-5)	$ 373,238	$ 26,199	$ 399,437
7. State Income Tax	0	0	0
8. Federal Income Tax	178,431	12,687	191,118
9. Operating Expenses	1,460,149	197,770	1,657,919
10. Rev. Requirements (6+7+8+9)	$2,011,818	$236,656	$2,248,474

The decrease in the interstate rate of return from 10.73 percent to 9.73 percent leads to a decrease in the interstate revenue requirement of $73,720, or 3.5 percent. Despite the assumption that the intrastate rate of return remains the same, the intrastate revenue requirement decreases by $160. This is attributable to the decrease in federal income taxes that results from the lower overall return on the toll rate base.

Should the state commission choose to adjust rates under its jurisdiction to allow Company K to recover the revenues that would have been recovered through interstate rates, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue reduction were to be offset by an increase in local rates, the required increase in local revenues would be 10.5 percent. In the absence of rate relief in the intrastate jurisdiction, the company's revenue and cash flow would be significantly reduced.

- System Companies

Company L is a commercial company in Nebraska with two exchanges serving fewer than ten thousand access lines. Company L is part of a holding company group. Company L's capitalization is 62 percent debt, which consists entirely of REA financing. Our analysis was based on the separated company results for the year ended December 31, 1983.

The "separated" method was used to develop Company L's toll rates of return. The interstate rate of return of 10.86 percent is based on AT&T's earned rate of return for the same period, and the intrastate rate of return of 8.42 percent is based on Northwestern Bell's earned rate of return for intrastate toll operations in Nebraska. The toll revenue requirements were calculated as follows:

Company L: 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$587,814	$998,952	$1,586,766
2.	Rate of Return	.108564	.084225	
3.	Return on Rate Base (1x2)	$ 63,816	$ 84,138	$ 147,954
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	3,009	5,139	8,148
6.	Net Return (3-4-5)	$ 60,807	$ 78,999	$ 139,806
7.	State Income Tax	5,517	6,646	12,163
8.	Federal Income Tax	34,929	42,082	77,011
9.	Operating Expenses	171,617	299,544	471,161
10.	Rev. Requirements (6+7+8+9)	$272,870	$427,271	$700,141

Company L's weighted average cost of capital was 7.79 percent in 1983. This figure was developed using an assumed return on common equity of 17.4 percent, the cost of preferred equity of 5 percent, and the company's actual cost of debt, which was 2.0 percent. The recalculated toll revenue requirements are as follows:

Company L: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$587,814	$998,952	$1,586,766
2.	Rate of Return	.077900	.084225	
3.	Return on Rate Base (1x2)	$ 45,791	$ 84,138	$ 129,929
4.	Interest During Const.	0	0	0
5.	Inv. Tax Credit Amort.	3,009	5,139	8,148
6.	Net Return (3-4-5)	$ 42,782	$ 78,999	$ 121,781
7.	State Income Tax	3,411	6,486	9,897
8.	Federal Income Tax	21,449	40,779	62,228
9.	Operating Expenses	171,617	299,544	471,161
10.	Rev. Requirements (6+7+8+9)	$239,259	$425,808	$ 665,067

As a result of the decrease in the interstate rate of return from 10.86 percent to 7.79 percent, Company L's interstate revenue requirement dropped $33,611, or 12.3 percent. Despite no change in the intrastate rate of return, the intrastate revenue requirement decreased $1,463 because of the decrease in state and federal income taxes as a result of the lower overall company return on toll rate base.

Should the Nebraska Public Service Commission (NPSC) allow Company L to recover its interstate revenue reduction, it would result in an increase in intrastate toll or local rates. If the recovery were authorized through local rates, a 14.0 percent increase in local revenues would be necessary. Should the decrease in interstate revenues go unrecovered, Company L's revenues and cash flow would be significantly reduced. The company may become a less attractive investment from the holding company's perspective, so there may be less incentive to make equity contributions needed to maintain and improve service.

Company M is a commercial company in Wisconsin owned by a holding company. It has nine exchanges serving fewer than ten thousand access lines. The company's capitalization is 66 percent debt, which consists entirely of REA and RTB financing. Our analysis was based on the company's separations data for the year ending December 31, 1983.

In the case of this company, the "separated" method of determining toll rates of return is used. Company M's interstate rate of return for 1983 was 10.87 percent, based on AT&T's earned rate for the period.

Company M's intrastate rate of return was 11.1 percent, based on Wisconsin Bell's earned rate of return on intrastate toll. Company M's revenue requirements were computed as follows:

Company M: 1983 Separated Toll Revenue Requirements

	Interstate	Intrastate	Total Toll
1. Rate Base	$1,342,458	$2,670,400	$4,012,858
2. Rate of Return	.108700	.111000	
3. Return on Rate Base (1x2)	$ 145,925	$ 296,415	$ 442,340
4. Interest During Const.	0	0	0
5. Net Return (3-4)	$ 145,925	$ 296,415	$ 442,340
6. State Income Tax	13,413	28,061	41,474
7. Federal Income Tax	55,913	118,124	174,037
8. Operating Expenses & Other Taxes	345,343	743,886	1,089,229
9. Gross Receipts Tax	61,529	130,224	191,753
10. State PSC Assessment	625	1,322	1,947
11. Revenue Requirements (5+6+7+8+9+10)	$ 622,746	$1,318,031	$1,940,778

(Totals do not add because of rounding.)

Company M's cost of capital was 10.05 percent in 1983. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 6.3 percent. The recalculated revenue requirements are as follows:

Company M: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$1,342,458	$2,670,400	$4,012,858
2.	Rate of Return	.100500	.111000	
3.	Return on Rate Base (1x2)	$ 134,917	$ 296,415	$ 431,332
4.	Interest During Const.	0	0	0
5.	Net Return (3-4)	$ 134,917	$ 296,415	$ 431,332
6.	State Income Tax	11,472	28,061	39,533
7.	Federal Income Tax	46,536	118,124	164,660
8.	Operating Exp. & Other Taxes	345,343	743,886	1,089,229
9.	Gross Receipts Tax	59,078	130,224	189,302
10.	State PSC Assessment	600	1,322	1,922
11.	Revenue Requirements (5+6+7+8+9+10)	$ 597,946	$1,318,032	$1,915,978

The decrease in the interstate rate of return from 10.87 percent to 10.05 percent leads to a decrease in the interstate revenue requirement of $24,800, or 4.0 percent.

Should the state commission choose to adjust rates under its jurisdiction to allow Company M to recover the revenues that would have been recovered through interstate rates, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue reduction were to be offset by an increase in local rates, the required increase in local revenues would be 1.8 percent.

Company N is a commercial company in South Carolina that is owned by a holding company. It has two exchanges serving fewer than ten thousand access lines. The company's capitalization is 83 percent debt, which consists entirely of REA and RTB financing. Our analysis was based on the company's separations data for the year ending June 30, 1983, which is the most recent year for which a completed study is available.

In the case of this company, the "separated" method of determining toll rates of return is used. Company N's interstate rate of return for 1983 was therefore 10.74 percent, based on Southern Bell's earned rate on interstate toll for the period. Company N's intrastate rate of return was 18.87 percent, based on Southern Bell's earned rate of return on intrastate toll. Company N's revenue requirements were computed as follows:

Company N: 1983 Separated Toll Revenue Requirements

	Interstate	Intrastate	Total Toll
1. Rate Base	$569,712	$774,678	$1,344,390
2. Rate of Return	.107426	.188667	
3. Return on Rate Base (1x2)	$ 61,201	$146,156	$ 207,357
4. Interest During Const.	2,070	2,529	4,599
5. Inv. Tax Credit Amort.	0	0	0
6. Net Return (3-4-5)	$ 59,131	$143,627	$ 202,758
7. State Income Tax	4,118	13,067	17,185
8. Federal Income Tax	28,066	91,933	119,999
9. Operating Exp. & Other Taxes	182,041	285,085	467,126
10. Property Tax	521	715	1,236
11. Gross Receipts Tax	0	1,601	1,601
12. Revenue Requirements (6+7+8+9+10+11)	$273,878	$536,028	$ 809,906

(Totals do not add because of rounding.)

Company N's cost of capital was 6.06 percent in 1983. This figure was calculated using an assumed cost of common equity of 17.4 percent and the company's actual cost of debt, which was 3.8 percent. The recalculated revenue requirements are as follows:

Company N: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$569,712	$774,678	$1,344,390
2.	Rate of Return	.060600	.188667	
3.	Return on Rate Base (1x2)	$ 34,525	$146,156	$ 180,681
4.	Interest During Const.	2,070	2,529	4,599
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 32,455	$143,627	$ 176,082
7.	State Income Tax	985	13,067	14,052
8.	Federal Income Tax	5,485	91,933	97,418
9.	Operating Exp. & Other Taxes	182,041	285,085	467,126
10.	Property Tax	521	715	1,236
11.	Gross Receipts Tax	0	1,601	1,601
12.	Revenue Requirements (6+7+8+9+10+11)	$221,487	$536,028	$ 757,515

The decrease in the interstate rate of return from 10.74 percent to 6.06 percent leads to a decrease in the interstate revenue requirement of $52,391, or 19.1 percent.

Should the state commission choose to adjust rates under its jurisdiction to allow Company N to recover the revenues that would have been recovered through interstate rates, either the intrastate toll settlement or local rates would have to increase. In the event that the revenue reduction were to be offset by an increase in local rates, the required increase in local revenues would be 8.2 percent. Should the state commission not allow recovery of the lost interstate revenues from state toll or local rates, the company's revenue and cash flow would be substantially reduced.

Furthermore, because of its low equity base (17 percent of capital), the equity return obtained from interstate earnings is very sensitive to fluctuations in the earned interstate rate of return. If its earned rate of return were to fall only one percentage point below the "authorized" rate of 6.06 percent, interstate results would contribute to the company's equity return at a rate below that which the holding company could obtain by investing in government securities. Actual interstate rates of return have consistently fallen below the authorized level by more than one percent, so such a result is more than a remote possibility. Under these circumstances, additional equity investments in the telephone company would be discouraged.

Company O is a commercial company in Tennessee with fifteen exchanges serving more than ten thousand access lines. Company O is part of a holding company group. Company O's capital structure is 59 percent debt, which consists of bank financing and funds borrowed through REA and RTB. Our analysis is based on separated company results for 1983.

The "separated" method of determining toll rates of return for the separations and settlements process was used for Company O. The interstate rate of return of 10.89 percent is based on AT&T's earned rate of return. Company O's intrastate rate of return of 12.22 percent is based on South Central Bell's rate of return for intrastate toll in Tennessee. The separated revenue requirements were calculated as follows:

Company O : 1983 Separated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$5,891,996	$4,779,529	$10,671,525
2.	Rate of Return	.108856	.122217	
3.	Return on Rate Base (1x2)	$ 641,377	$ 584,139	$ 1,225,516
4.	Interest During Const.	70,878	57,316	128,194
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 570,499	$ 526,823	$ 1,097,322
7.	State Income Tax	29,062	31,117	60,179
8.	Federal Income Tax	178,304	198,750	377,054
9.	Operating Expenses	1,450,517	1,348,409	2,798,926
10.	Gross Receipts Tax	0	22,208	22,208
11.	Rev. Requirements (6+7+8+9+10)	$2,228,383	$2,127,308	$ 4,355,691

(Totals do not add because of rounding.)

Company O's weighted average cost of capital was 12.96 percent in 1983. This figure was developed using an assumed return on common equity of 17.4 percent and the company's actual cost of debt, which was 9.9 percent. The recalculated separated revenue requirements are as follows:

Company O: Recalculated Toll Revenue Requirements

		Interstate	Intrastate	Total Toll
1.	Rate Base	$5,891,996	$4,779,529	$10,671,525
2.	Rate of Return	.129600	.122217	
3.	Return on Rate Base (1x2)	$ 763,603	$ 584,139	$ 1,347,742
4.	Interest During Const.	70,878	57,316	128,194
5.	Inv. Tax Credit Amort.	0	0	0
6.	Net Return (3-4-5)	$ 692,725	$ 526,823	$ 1,219,548
7.	State Income Tax	43,510	31,117	74,627
8.	Federal Income Tax	282,422	198,750	481,172
9.	Operating Expenses	1,450,517	1,348,409	2,798,926
10.	Gross Receipts Tax	0	22,208	22,208
11.	Rev. Requirements (6+7+8+9+10)	$2,469,174	$2,127,307	$ 4,596,481

The increase in the interstate rate of return from 10.89 percent to 12.96 percent results in an increase in the interstate revenue requirement of $240,791, or 10.8 percent. The intrastate revenue requirement is unchanged.

Company O's relatively high cost of debt is more representative of a larger company's cost of debt. Because of its high cost of debt, Company O would benefit from a rate of return developed on an individual company cost of capital basis.

APPENDIX I.—BELL COMMUNICATIONS STUDY AND SUPPLEMENTAL MATERIAL

On October 1, 1984, in the last of a series of discussions, members of the Task Force staff and staff of Bell Communications Research Inc. agreed to the following study:

Data: The data are a match of telephone billing data from some Bell operating companies with a small business data bank containing measures of size such as employment and average monthly sales.

Confidentiality: The records of individual businesses are to remain confidential.

Scenarios: It was agreed that two scenarios would be run on the Bellcor computer: (1) a full implementation of the FCC access charge decision and other local rate increases and (2) a partial implementation scenario with residential and one line business exempt from access fees.

Reporting of results: The following size categories were agreed upon: (1) 0-9 employees, (2) 10-19 employees, (3) 20-49 employees, (4) 50-99 employees, (5) 100-499 employees and (6) 500 plus employees for all industries and for each one digit Standard Industrial Classification (SIC) code.

The following statistics for each of the following variables was agreed upon.

Statistics: Mean or average, median, minimum, maximum, and variance.

Variables: Access lines, employees per line, sales per month, local charges, interstate toll charges - MTS, WATS and PL, intrastate toll charges - MTS, WATS and PL, total telephone expenditures, telephone expenditures as a percent of sales, access charges divided by interstate MTS toll and WATS, total end user charge, total toll savings, and estimated bypass savings.

Review & Recommendations Concerning Bellcore Study

Sampling Technique

The Bellcore study sample of 9085 businesses was taken from a subset of the universe of all small businesses. That subset included only those business telephone accounts that matched the Dun & Bradstreet (D&B) business file. There are approximately 5 million business records in the D&B fi'.:. The file does not include the approximately 2.3 million farm businesses which will, of course, be affected by the FCC's actions. In addition, the D&B file contains only 3.2% of businesses with $25,000 or less in annual income, 41% of businesses with incomes of $25,000-99,999 and 91% of businesses with $100,000 to $999,999 in annual income. Virtually all firms with $1 million or more in annual income are in the D&B file. If we define small businesses as those with less than $1 million in income, then the D&B file contains approximately 23% of all small businesses including farm businesses. (See The State of Small Businesses: A Report of the President, March 1984, p. 417.)

It must be noted that many of the small businesses which are not in the D&B file are part-time proprietorships and partnerships and may, therefore, not have business telephones. The point is, however, that the sample taken by Bellcore is biased because it is taken from only a subset of the universe of all small businesses. We do not know from the Bellcore study how many businesses are excluded from the subset from which the sample was taken. We do know, based on Small Business Administration data, that the unsampled businesses are comprised primarily of very small businesses — 0-9 employees and 1-4 telephone lines. The amount of bias introduced into the results by the failure to sample from the total universe of small businesses is likely quite large.

The following questions and recommendations concerning the Bellcore study are designed to remove the bias introduced by sampling from a small subset of the universe of all small businesses.

1. Bellcore should provide information on the universe from which the sample was drawn to determine: 1) the total number of firms in the universe served by the telephone company, 2) the number of firms in the universe that were not included in the sample because they were not included in the Dun & Bradstreet Market Identifier data base, and 3) the number of firms in the universe that were covered by the sample of firms matched to the data base?

2. Although some of the disaggregations in the report cannot be provided without records from the Dun & Bradstreet data base (for example, data disaggregated by number of employees), a substantial amount of information could be provided either for the universe or for a sample drawn from the cases that could not be matched to the data base. Bellcore should provide the following data to the Committee and the FCC based either on the universe or a sample of firms not in the Dun & Bradstreet Market Identifier data base:

1) the "Average" line at the bottom of Table 1,
2) the distribution of "Total Firms" and "Total Lines" in the last two columns of Table 1-B,
3) the data provided on "Telephone Expenses" on the "Total" line in Table 2-B,

4) data on the "All Firms" line of Table 1-C,
5) the number and percentages on the "Total" lines of Tables 2-C, 3-C, 4-C, and 5-C.

An additional issue is raised by Bellcore's reporting of results in Table 1-D. Bellcore reported specific results for 66 categories based on size and type of business. In only 11 of the 66 categories is the sample large enough to report results with a plus or minus confidence interval of 5 percentage points. Bellcore should have used a stratified random sample to assure that enough firms were sampled in each category for which Bellcore wished to release statistical estimates.

Assumptions

Two assumptions in the Bellcore study need to be carefully reviewed. First, the study assumes that all areas will receive long-distance rate reductions. Testimony received by the Committee's Task Force indicates that long-distance rates for rural areas will decline less than long-distance rates between large urban centers and may even rise. Approximately 30 percent of the businesses in the D&B data file are outside of major metropolitan areas. If non-metropolitan businesses are evenly spread accross long-distance usage patterns, then the Bellcore estimate that 49% of small businesses will benefit from a 30 percent reduction in long-distance rates is 30 percent too high. The real proportion of small businesses that benefit is likely to be closer to one-third than one-half. Bellcore needs to stratify the sample into urban and non-urban in order to improve their estimates.

Second, Bellcore assumes that long-distance rates will decline by a full 30 percent. Long-distance rates are expected to decline 10% based on the currently proposed single line business and residential access charges. Even the full implementation of original FCC end-user access charge plan -- the Bellcore study assumption -- could be reasonably expected to reduce interurban rates by 22-25 percent rather than 30 percent as Bellcore assumes.

Following is a reasonable, alternative estimate. According to information calculated by Bellcore, a $4 single line business and residential/customer access line charge (CALC) would allow interstate switched rates to be reduced by $.0486/minute. (See Belcore's bypass data October 26, 1984.)

According to the FCC's Office of Planning and Policy (September, 1984) there were approximately 47.25 billion MTS message minutes at 31¢ per minute and 23.6 billion WATS message minutes at 29¢ per minute in 1984. A weighted average is $.3033 per minute. The average rate reduction is then $.0486 - $.3033 = 16 percent. Adding in the 6.1% rate reduction already in place gives about 22 percent.

Undoubtedly, other reasonable estimates exist. The purpose of this exercise is to point out that the Bellcore assumption that long-distance rates will drop 30 percent is on the high side and skews the results of the study.

Reporting of Results and Statistics

There appears to be some confusion in the interpretation of the study. The study itself presents data only for the sample of businesses. However, in the analysis, the data is interpreted as representing the universe of small businesses. There are two problems with this approach. First, there were some units selected for the sample but not included in the analysis for reasons not reported in the study. If the missing firms -

about 10% of the original sample of 10,000 — are concentrated among particular types of firms of interest, then the data presented for the sample may not be representative of even the subset of the universe of all small businesses from which the sample was selected. The following questions are designed to determine the possible bias from this source.

3. Bellcore should provide the Committee and the FCC with information on the number of units that were selected for the sample but not included in the analysis. What percentage of initially sampled firms fell into this category? What percentage of firms that were initially matched to the Dun & Bradstreet data base were ultimately not included in the sample? Is it possible to provide the data from Question 2, above, for these firms? If possible, please do so. For what reasons were these firms not included in the sample?

A second problem stems from Bellcore's reporting of estimates of values from the sample as if they were true population or universe values. As Bellcore is working from a sample, all the figures presented are estimates of true values. Traditionally, data presented in such a form is accompanied by the sample variances. This is admittedly an arcane area of statistical jargon. However, information on sampling variance is needed to evaluate how reliable are the data presented in all the tabulations. Each entry in the tables has a sample variance. With the sample variances, it is possible to construct confidence intervals around the estimates in the tables. These confidence intervals provide a range within which one can have 99 percent confidence, for instance, that the true or actual value falls for the total population.

There is a standard technique for calculating confidence intervals around proportions. For example, when the Gallop organization states that 51 percent of those polled say they will vote for Joe Smith, Gallop also reports a confidence interval of, say, plus or minus 3 percent. Table 1-D in the Bellcore study is presented as if the percentage breakdown in the sample is the true population value for the universe of all small businesses. Table 1 following shows the confidence intervals around the values presented in Table 1-D of the study. As Table 1 reveals, only 11 of the 66 values presented by Bellcore in Table 1-D have a confidence interval of 10 percentage points or less (plus or minus 5 percentage points).

In order to calculate confidence intervals for dollar values presented in the other tables, sample variances are needed. The Committee and the FCC, therefore, need sampling variances for the sample estimates in the report in order to evaluate the reliability of the estimates.

Finally, Tables 2-B and 3-B represent telephone expenses as a percent of sales. The average for all firms is 0.5%. These data could be presented in a slightly different fashion to indicate the importance of telephone costs to small businesses. Retailers for example, normally have net returns to sales of 1 to 5 percent. This means that telephone costs for the average retailer are equal to 10-50 percent of net returns to sales. Based on Bellcore's own data, then, the doubling of local telephone costs would obviously have a significant impact on small businesses .

TABLE 1

Estimated Percentages of Businesses Whose Long Distance Savings Will Exceed End User Charges (Percentage of Firms-Upper and Lower Range of 99% Confidence Intervals)

Explanation: The 99% confidence intervals given below mean that we can be 99% confident that the actual value falls within the intervals. Only 11 of the 66 categories listed be Bellcore have a confidence interval of 10 or fewer percentage points (see the underlined values). Normally, researchers would not report estimates with confidence intervals over 10%. Such results have large potential error and are misleading.

Type of Business	Number of Employees Per Firm					
	0-9	10-19	20-49	50-99	100-499	Total
1. Agriculture Forestry and Fishing	(32-56)	(44-100)	(50-100)	(*)	(*)	(39-61)
2. Mining	(51-93)	(65-100)	(21-100)	(*)	(26-100)	(59-91)
3. Construction	(37-47)	(47-73)	(47-83)	(54-100)	(26-100)	(41-51)
4. Manufacturing	(48-60)	(57-81)	(67-89)	(66-98)	(66-100)	(57-67)
5. Transportation	(40-62)	(44-86)	(60-100)	(6-100)	(0-100)	(48-66)
6. Wholesale Trade	(59-69)	(66-88)	(77-100)	(97-100)	(37-100)	(63-71)
7. Retail Trade	(35-41)	(32-52)	(38-66)	(14-74)	(10-90)	(36-42)
8. Finance, Insurance and Real Estate	(46-60)	(24-66)	(18-74)	(0-90)	(26-100)	(45-59)
9. Services	(38-46)	(43-63)	(40-70)	(29-77)	(26-88)	(41-47)
10. Government	(30-96)	(*)	(*)	(*)	(*)	(36-98)
Total (%)	(44-48)	(53-63)	(60-72)	(56-88)	(58-94)	(47-51)

* There are one or fewer businesses in the sample for these categories.

Source: Table 1-D in "The Impact of End-User Charges on Small Businesses", Bell Communications Research.

TABLE 2

COMPARISON OF DATA SUBMITTED TO THE COMMITTEE BY BELLCORE

Percentage Difference in Interstate Long-Distance Charges per Line Between October and November Data

No. of Lines	Difference
1 line	30%
2 lines	14%
3-4 lines	28%
5-8 lines	15%

Sources: Letter to Payton Wynns, Chief, Industry Analysis Division, FCC, from Robert T. Blau, Bell Communications, dated October 25, 1984, and the Impact of End-User Charges on Small Businesses, Bellcore, received November 26, 1984, by the Committee.

OCTOBER DATA AND STUDY

Bell
Communications
Research

2101 L Street, N.W
Washington, DC 20037

October 25, 1984

RECEIVED
COMMON CARRIER BUREAU
OCT 26 1984
ECONOMICS DIVISION

Peyton L. Wynns
Chief, Industry Analysis Division
Federal Communications Commission
1919 M Street, NW
Washington, DC 20037

Dear Mr. Wynns:

Pursuant to your request, I have enclosed tables which summarize monthly expenditures on MTS, WATS, private line and local service by business customers. Also enclosed is a brief explanation of how these data should be interpreted in developing estimates of BOC access revenues that are vulnerable to bypass.

In reviewing the statistics, you should note the following points. First, the data relate only to the Bell Operating Companies, and are based on a sample representing approximately 20 percent of all business subscribers in the U.S. In addition, all data are based on customer billing information for April 1983.

Second, local service revenues include expenditures on a variety of offerings other than basic service. These include, for example, charges for CPE, vertically integrated services such as call forwarding, and related local service offerings.

Third, in developing the data base that was used to compile these statistics, some companies classified local private line billings as local service revenues, while others treated these same billings as private line revenues. No effort was made to separate local, intrastate and interstate private line revenues as that process would have delayed our response to your data request.

If you have any questions, please call me at 955-4618.

Sincerely,

Robert T Blau

Robert T. Blau
Division Manager
Government Affairs

RTB/vp
Enclosures

DATA DESCRIPTION

Customer Revenue Distribution

(1) Sample -Consists of New England, New Jersey, Southern, Southwestern (approximately 20% of nation)

(2) Data Sources -

MTS/WATS/800 - Bill Level Master and LATA Analysis Data System

Private Line - Private Line History File

Local* - Bill Level Master (includes anything on line 1 of customer bill plus local message charges)

*There are no standards for line 1 - some companies include local private line, WATS/800 line charges, bill adjustments, and other charges.

Bypass/Tariff Shopping Analysis

(1) Decision to move out of switched based on cost

$$\frac{\text{Bypass/Tariff Shopping Cost}}{\text{Switched Cost}} = \text{Minutes of use threshold}$$

$$\text{e.g.} \quad \frac{\$40}{.0848} = 475 \text{ MOU}$$

Customer with 475 MOU is a bypass candidate

(2) Decision based on quality of service

Assume customer can carry 1500-2000 MOU per month over bypass line without degrading service - clearly some users will carry more

(3) Decision based as noted in (1) on usage threshold

(4) Analysis examples using revenue data MTS

1 line customers
Revenue $28
Assume average revenue per minute 35¢

$$\text{Usage} = \frac{\$28}{.35} = 94 \text{ minutes}$$

Conclude: bypass not viable at $40 bypass cost

9 line customers
Revenue $799
ARPM .35
Usage 2280

Conclude: bypass viable

How much bypass?
At 2000 MOU/line have 1 bypass line
and 280 MOU overflow

Overflow of 280 MOU is more cheaply handled on switched network ($24 = 280 x .0848) than on bypass circuit ($40)

All customers
Vulnerability percent is the sum of total revenue to bypass divided by original total revenue

WATS
Handled alone
Assume ARPM 28¢
Usage threshold for bypass is 475 MOU as in (1) since WATS and MTS are priced the same for access purposes

Therefore, if revenue per line is greater than $135 (.28 x 475) customer is a bypass candidate

In conjunction with MTS
Examine total MTS and WATS usage in measuring bypass decision making

(5) Resale
Assumption - Reseller retains $.0424 of the $.0848 switched cost saved to cover reseller costs

Assumption - Customer must save approximtely $5 per month

Conclude
Usage Threshold $= \frac{\$5}{.0424} =$ 100 MOU

For MTS any business customer with $35 billing (at 35¢ ARPM) is vulnerable to resale - this includes overflow as in (4) so that overflow may go to reseller instead of switched access

(6) Resale - Residence

Data are in usage

When CCLC is \$.0524 residence customer gains \$.0424 per minute (.0848 - .0424)

$\uparrow$

Reseller Cost

Conclude

Usage threshold = $\frac{\$5}{.0424} \approx$ 100 MOU

(7) Bypass/Tariff Shopping/Resale Resale Analysis in \$4 End User Charge Case

CCLC = .0281 vs. .0524

Switched Cost = .0605 vs. .0848

Changes:

Bypass threshold = $\frac{\text{Bypass Cost}}{.0605} = \frac{\$40}{.0605}$

= 615 MOU [vs. 475]

Resale threshold = $\frac{\$5}{\text{Saving}} = \frac{\$5}{.0181}$

= 275 MOU [vs. 100]

(.0181 = .0605 - .0424)

$\uparrow$

Reseller Cost

# of Lines	CLAC Count	Access Lines	Lines Per CLAC	Interstate/InterLATA		Intrastate/InterLATA		Private Line
				MTS	WATS/800	MTS	WATS/800	
1	1142498	1142498	1.0	$16,010,598	$4,244,709	$6,779,752	$1,071,038	$1,554,045
2	306585	613170	2.0	$12,546,978	$4,878,321	$5,369,656	$1,248,703	$822,918
3-4	243201	814327	3.3	$22,189,294	$9,645,927	$8,076,961	$2,351,655	$991,821
5-8	94988	570263	6.0	$24,575,000	$19,985,609	$7,982,596	$5,016,258	$28,307
9	8104	72936	9.0	$3,806,668	$3,900,698	$1,160,344	$1,021,646	$257,676
10-11	11542	120190	10.4	$6,727,551	$7,093,390	$1,939,207	$1,783,607	$411,073
12	4211	50532	12.0	$2,834,550	$3,464,865	$833,861	$860,390	$167,821
13-15	7985	110864	13.9	$6,832,796	$7,785,099	$1,862,589	$1,987,241	$408,221
16-24	9995	191608	19.2	$12,407,315	$16,371,967	$3,030,936	$4,103,628	$812,074
25-29	2366	63399	26.8	$4,342,611	$5,697,207	$985,963	$1,319,874	$404,197
30-38	2366	78953	33.4	$5,675,162	$7,475,044	$1,314,827	$2,072,770	$468,582
39-59	2272	106465	46.9	$7,184,356	$10,448,748	$1,517,058	$2,747,502	$479,043
60-103	1349	103094	76.4	$8,083,713	$9,474,489	$1,468,018	$2,212,666	$271,514
104-154	478	58953	123.3	$4,361,622	$7,030,967	$861,899	$1,749,965	$98,134
155+	852	743157	872.3	$13,112,163	$13,450,556	$2,410,870	$3,115,210	$705,944

# of Lines	Average Local Revenue	Interstate Rev/CLAC		Intrastate Rev/CLAC		Private Line/ CLAC	Total Revenue/ CLAC
		MTS	WATS/800	MTS	WATS/800		
1	$249	$14	$4	$6	$1	$1	$275
2	$755	$41	$16	$18	$4	$3	$836
3-4	$1,165	$91	$40	$33	$10	$4	$1,342
5-8	$2,586	$259	$210	$84	$53	$0	$3,192
9	$4,180	$470	$481	$143	$126	$32	$5,432
10-11	$5,371	$583	$615	$168	$155	$36	$6,927
12	$6,400	$673	$823	$198	$204	$40	$8,338
13-15	$7,438	$856	$975	$233	$249	$51	$9,802
16-24	$10,768	$1,241	$1,638	$303	$411	$81	$14,443
25-29	$16,463	$1,835	$2,408	$417	$558	$171	$21,851
30-38	$20,151	$2,399	$3,159	$556	$876	$198	$27,339
39-59	$29,612	$3,162	$4,599	$668	$1,209	$211	$39,461
60-103	$52,240	$5,992	$7,023	$1,088	$1,640	$201	$68,186
104-134	$88,051	$9,125	$14,709	$1,803	$3,661	$205	$117,554
155+	$148,022	$15,390	$15,787	$2,830	$3,656	$829	$186,514

# of Lines	WATS/800 Rev. Per Line			Private Line	
	# of Lines	InterSt.	IntraSt.	# of Lines	Rev/Line
1	7663	$554	$214	71712	$22
2	13143	$371	$223	28491	$29
3-4	29499	$327	$174	26708	$37
5-8	59301	$337	$188	26708	$37
9	10108	$386	$222	3840	$67
10-11	16422	$432	$237	5550	$74
12	7346	$472	$259	2410	$70
13-15	16718	$466	$244	5688	$72
16-24	29762	$550	$291	14204	$57
25-29	9662	$590	$313	4380	$92
30-38	12069	$619	$351	7303	$64
39-59	15959	$655	$347	9059	$53
60-103	15102	$627	$352	8850	$31
104-154	8992	$782	$377	4600	$21
155+	18989	$708	$396	15991	$44

October 25, 1984

Mr. William J. Tricarico, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: In The Matter of the Commission's Request for Data, Information, and Studies Pertaining To Bypass of The Public Switched Network

In the Matter of the Effect of Federal Decisions on Local Rates and Services

In the Matter of the Commission's Request for Further Information on the Effects of Federal Decisions on Local Rates and Services

Dear Mr. Tricarico:

Transmitted herewith for filing with the Commission in the above-captioned dockets are ten copies of a letter sent to Peyton L. Wynns, Chief, Industry Analysis Division, in response to his request for additional data concerning a study entitled "The Impact of End User Charges on Bypass and Universal Telephone Service." The Study was performed by Bell Communications Research, Inc. and was filed in these dockets on September 10, 1984.

Acknowledgment and date of receipt of this letter are requested. A duplicate copy of the letter is attached for this purpose. All correspondence and inquiries in connection with this letter should be directed to the undersigned.

Respectfully submitted,

Charles P. Featherstun

Charles P. Featherstun
(202) 955-4766

CPF:mjh

Enclosure

cc: Peyton Wynns (without enclosure)

Bell
Communications
Research

2101 L Street N.W.
Washington DC 20037

November 21, 1984

Mr. Kent Hall
Rayburn House Office Building
Room 2361
Washington, DC 20515

Dear Mr. Hall:

Enclosed is an analysis of The Impact of End User Charges on Small Business. The study was conducted by Bell Communications Research at the request of the Regional Bell Operating Companies.

I believe you will find that the analysis is responsive to many if not all concerns that you and your calleagues raised with me regarding the effects of The Commission's Access Charge Plan on small business.

Should you have any questions about the study, please call me at (202)955-4618. And have a happy Thanksgiving.

Sincerely,

Robert T. Blau, VP

Robert T. Blau
Division Manager
Government Affairs

RTB/vp
Enclosure

The Impact of End-User Charges On Small Business

Bell Communications Research
November 1984

The Impact of End-User Charges on Small Business

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THE IMPACT OF END-USER CHARGES ON SMALL BUSINESS

I. OVERVIEW

Bell Communications Research (Bellcore), at the request of the Bell Operating Companies, has analyzed the potential effect of end-user charges on small business customers. This study, coupled with Bellcore's recent analysis, The Impact of Access Charges on Bypass and Universal Telephone Service (Bypass Study), demonstrates that the Commission's Access Charge Plan will benefit all telephone customers, including small businesses (i.e., firms with less than 500 employees). It will do so by keeping local and long distance rates at lower and, hence, more affordable levels. In particular, the results of both studies indicate that:

- End-user charges will reduce the amount of local telephone company revenues lost to bypass and, thus, will avoid increases in local rates that would occur without end-user charges.
- The resulting reductions in the amount of local rate increases will more than offset the end-user charges for all small businesses.
- End-user charges will result in reductions in long distance rates.
- Small businesses as a group will save enough in long distance expenses alone to more than offset the end-user charges; indeed, for every $1 they spend for end-user charges they will save an average of $3 in long distance charges.

II. BACKGROUND

A. The Access Charge Plan

In December, 1982, the Federal Communications Commission (Commission) adopted an Access Charge Plan through which long distance carriers (i.e., interexchange carriers) and their customers compensate local telephone companies for the use of local networks in completing long distance calls. The Commission's plan was designed to enable the telecommunications industry to price local and long distance services at levels that more closely reflect the cost of providing service. By doing so, the plan would:

- decrease incentives for interexchange carriers and their customers to bypass local telephone networks and, thus, avoid the loss of long distance revenues that support local rates;
- reduce long distance rates;
- result in more efficient and productive use of the public telephone network; and
- help preserve universal service.

Customers use their telephone lines for both local and long distance service. It costs about $26 per month on a nationwide average to provide and maintain each customer's telephone line. The costs of these lines do not depend on or vary with the number or duration of local or long distance calls placed over those lines.

Under the Commission's plan as implemented to date, interstate long distance (hereafter long distance) revenues collected from long distance carriers and multi-line business customers recover $7 of the $26. Long distance carriers pay 5.24 cents per minute for both the originating and terminating connection -- for a total of 10.48 cents per minute of use. Multi-line businesses also pay end-user charges of up to $6 per line per month. The Commission has deferred implementation of the end-user charge on residence and single-line business customers until June, 1985, in part to more thoroughly evaluate the possible effect of those charges on demand for service.

The House of Representatives' Small Business Committee Telephone Task Force (Task Force), concerned that end-user charges might threaten the affordability of local service to small business customers, has asked the Commission to determine what, if any, savings in long distance expenses might accrue to these customers.

B. The Effect of End-User Charges on Bypass and Local Telephone Rates

With end-user charges both small businesses and residential customers will benefit from reductions in bypass, smaller increases in local rates and reductions in long distance rates.

Bypass occurs when customers avoid the use of local telephone networks to place long distance calls. Bypass will reduce long distance access revenues used to recover local telephone plant costs. Local rates will necessarily go up to replace these losses. The Bypass Study estimated that local telephone companies could lose up to $10.20 per line per month without end-user charges, as compared with a $4.55 loss per line if the Commission's Access Charge Plan is fully implemented.

This $5.65 reduction (*i.e.*, $10.20 less $4.55) in revenue loss will exceed the $3.81 national average end-user charge for residential and single line business customers, thereby saving those consumers $1.84 per month in local rate increases. The same will be true of multi-line business customers whose end-user charges currently average $4.80 per line. In short, this $5.65 savings will more than offset end-user charges on all telephone customers, even those who make no long distance calls.

In addition, savings in long distance rates that will result from the Commission's Access Charge Plan represent a further benefit to telephone customers. The remainder of this analysis addresses those savings and how they will benefit small businesses. However, focusing only on long distance savings would understate the impact of end-user charges. Consideration also must be given to equally important savings in local rate increases that will result from reduced bypass.

III. STUDY PURPOSE AND METHODS

This study measures savings in long distance charges to small business customers that will result from the Commission's Access Charge Plan. In accordance with criteria established by the Small Business Committee Telephone Task Force, the study evaluates firms that employ fewer than 500 persons (hereafter small businesses). The analysis is based on two principal assumptions: (1) the implementation of a $4 end-user charge on residence and single line customers and a $6 end-user charge on multi-line business customers, and (2) a resulting 30 percent reduction in interstate long distance rates.

In conjunction with the end-user charge of up to $6 on multi-line customers that became effective in May of this year, the Commission ordered a 6.1 percent reduction in interstate rates. If the Commission orders comparable long distance rate reductions following the implementation of a $4 end-user charge for residence and single-line business customers, interstate rates will be at least 30 percent below 1983 levels when no end-user charges were in place.

Because interstate rate reductions that will accrue from end-user charges are subject to the Commission's jurisdiction, the 30 percent discount used in this analysis might well prove conservative. Indeed, in his June 26, 1984 testimony before the Small Business Committee Telephone Task Force, Chairman Mark S. Fowler suggested that full implementation of the Commission's Access Charge Plan "could yield reductions in interstate long distance rates of as much as 35 to 40 percent."

The source of data used to measure the effects of end-user charges on small business customers is a randomly selected sample of 9085 firms, each of which employs fewer than 500 persons. All firms included in the sample are categorized by the number of local telephone access lines, the number of employees and the type of business.

Two types of information were obtained for each of these companies: monthly expenditures on local and long distance services during April 1983, and business census statistics indicating the type and size (i.e., annual sales and number of employees) of individual firms represented in the sample. All telephone billing information was obtained from the BOCs. The business census information is from Dun & Bradstreet's Market Identifier data base.

Also, the long distance billing information used in this analysis is confined to charges for services rendered by AT&T since, during the April 1983 study period, the BOCs only billed for AT&T.

Data reported below are confined to group averages so as to protect the confidentiality of individual billing records. (For a more detailed description of the study sample and its representativeness of all small businesses in the United States, see Appendix A.)

IV. RESULTS

A. The Effect of End-User Charges on Small Business Long Distance Expenses

Table 1 and Appendix B summarize savings in long distance expenses that will accrue to small business customers if the Commission's Access Charge Plan is fully implemented. They also measure the percentage reduction in total telephone service charges that will result from the combination of long distance rate reductions and end-user charges.

The data indicate that, for small businesses as a group, long distance savings will more than offset end-user charges. In particular, figures depicted in Table 1 and Appendix B show that:

- Interstate long distance expenses represent about 45 percent of total monthly telephone charges to small business customers.

- On average, small business savings on long distance will exceed end-user charges by $26.63 each month; this would represent almost a 10 percent reduction in total monthly telephone service charges.

- Savings in long distance expenses will exceed end-user charges for all groups of small businesses, including single-line businesses and those with less than 10 employees.

Table 1
The Effect of End-User Charges on Small Business Telephone Expenses
(Dollars Per Month)

Employees Per Firm	Interstate Billing	Total Monthly Billing	Effect of End-User Charges			% Change in Total Charges
			End-User Charges*/	30% L.D. Savings	Net Savings	
0-9	$ 70	$ 173	$ 8.12	$ 21.00	$ 12.88	- 7.4%
10-19	187	403	15.08	56.10	41.02	-10.2%
20-49	338	682	20.55	101.40	80.85	-11.9%
50-99	725	1,373	34.53	217.50	182.97	-13.3%
100-499	1,231	2,325	46.21	369.30	323.09	-13.9%
Average	$ 124	$ 275	$10.57	$ 37.20	$ 26.63	- 9.7%

B. Effect of End-User Charges on Individual Firms

The figures shown above represent average telephone expenses for groups of small businesses. Table 1 categorizes small businesses by size of work force. Appendix B categorizes these same firms by number of lines. Table 2 and Appendix C illustrate the percent of individual firms in those same groups that will realize long distance savings which exceed their end-user charges.

The results show that about one-half of all small business customers will make up end-user charges through savings in long distance expenses alone. In addition:

- 46 percent of all firms that employ fewer than 10 persons will experience savings in long distance expenses that exceed end-user charges.

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*/ Figures reflect end-user charges for access lines and WATS/800 lines.

- For even the remaining 54 percent of firms with fewer than 10 employees, the long distance savings will offset nearly 40 percent of the firms' end-user charges. The reductions in local rate increases discussed above will more than offset the remaining 60 percent of the end-user charges.

- 62 percent of all small business customers with 10 or more employees will realize long distance savings that exceed their end-user charges.

Table 2
Small Businesses Whose Long
Distance Savings Will Exceed End-User Charges:
By Employee Group

Employees Per Firm	% of Firms
0-9	46%
10-19	58%
20-49	66%
50-99	67%
100-499	71%
All Firms	49%

C. The Effect of End-User Charges on Industry Groups

In addition to measuring the number of firms whose long distance savings exceed their end-user charges, an effort was made to identify the types of businesses in which these companies are engaged. Table 3 summarizes these findings. (For a more detailed discussion, see Appendix D.)

Table 3
Small Businesses Whose
Long Distance Savings Will Exceed End-User Charges:
By Industry Group

Type of Business	% of Firms
1. Agriculture, Forestry & Fishing	50%
2. Mining	75%
3. Construction	46%
4. Manufacturing	62%
5. Transportation	57%
6. Wholesale Trade	67%
7. Retail Trade	39%
8. Finance, Insurance & Real Estate	52%
9. Services	44%
10. Government Offices	67%
All Firms	49%

V. CONCLUSIONS

Results of this analysis and Bellcore's Bypass Study clearly demonstrate that the Commission's Access Charge Plan will benefit small business telephone customers. It will do so by keeping down local and long distance charges. In particular, taken together these studies indicate that:

- End-user charges will reduce the local telephone revenues lost to bypass and, thus, avoid unnecessary and potentially substantial rate increases; savings from smaller increases in local rates will offset end-user charges for all small businesses, including those that make no long distance calls.

- Full implementation of the Commission's Access Charge Plan could reduce long distance rates; these savings alone will exceed end-user charges for about one-half of all small business customers.

- For small businesses as a group, net savings in telephone expenses will average $26.63 per firm, or almost a 10 percent reduction in total monthly charges for local and long distance services.

Appendix A

The Nature of Small Businesses

General Description

As noted in Section III above, data used to measure the effects of end-user charges are from a sample of 9085 randomly selected firms, each of which employs fewer than 500 persons. All firms included in the sample are located in 23 states[*/] served by the Bell Operating Companies. All told, the states from which the sample is drawn account for about 35 percent of all business telephone lines in the country. The costs of local telephone lines in these states also are within 5 percent of the national average.

This appendix describes the type and size of firms that are represented in this analysis. It also compares these characteristics with those of the 5 million companies in the Dun & Bradstreet Market Identifier data base. The comparisons are made to insure that the sample is representative.

Findings

Data depicted in Tables 1-A and 2-A illustrate that:

- 79.8 percent of all firms in the sample employ fewer than 10 persons, as compared with 77.4 percent of all 5 million small businesses in the Dun & Bradstreet data base.
- An additional 17.2 percent of all firms in the sample employ 10-49 persons while only 3 percent have work forces of 50 or more individuals. In comparison, 18.3 percent of all small businesses nationwide employ 10-49 persons, whereas 4.4 percent of the total employ 50 or more individuals.

[*/] States from which the sample is drawn include Alabama, Arkansas, Delaware, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Mississippi, Missouri, New Hampshire, New Jersey, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, and Vermont. The 23 states are representative of the country as a whole in terms of both cost of providing telephone services and expenses incurred for those services by small businesses. The sample is confined to these states because all customer billing information for firms in those locations is recorded on the same computer record. For firms situated in other states, the April 1983 billing information on interstate MTS, WATS and 800 service is recorded in separate data bases. Matching these records for several thousand individual firms would have precluded timely completion of this analysis.

- 53.8 percent of all sampled firms are involved in retail trade and services, as compared with 51.8 percent of all small businesses nationwide.

Given the similarities between percentages referenced above and comparable figures contained in Tables 1-A and 2-A, the sample of firms used in this study is representative of all small business. As such it provides a reliable vehicle from which to evaluate the effects of end-user charges on these particular telephone customers.

TABLE 1-A

The Nature and Size of Small Businesses: Bellcore Random Sample (Number of Firms)

Type of Business	Number of Employees Per Firm 0-9	10-19	20-49	50-99	100-499	Total
1. Agriculture, Forestry & Fishing	145 (1.6%)	19 (0.2%)	12 (0.1%)	1 (0.0%)	0 (0.0%)	177 (1.9%)
2. Mining	40 (0.4%)	11 (0.1%)	11 (0.1%)	1 (0.0%)	5 (0.1%)	68 (0.7%)
3. Construction	831 (9.1%)	135 (1.5%)	60 (0.7%)	17 (0.2%)	12 (0.1%)	1,055 (11.6%)
4. Manufacturing	589 (6.5%)	145 (1.6%)	124 (1.4%)	49 (0.5%)	33 (0.4%)	940 (10.3%)
5. Transportation	173 (1.9%)	46 (0.5%)	35 (0.4%)	9 (0.1%)	8 (0.1%)	271 (3.0%)
6. Wholesale Trade	961 (10.6%)	137 (1.5%)	50 (0.6%)	12 (0.1%)	6 (0.1%)	1,166 (12.8%)
7. Retail Trade	2,368 (26.1%)	233 (2.6%)	121 (1.3%)	25 (0.3%)	14 (0.2%)	2,761 (30.4%)
8. Finance, Insurance and Real Estate	406 (4.5%)	53 (0.6%)	28 (0.3%)	11 (0.1%)	5 (0.1%)	503 (5.5%)
9. Services	1,722 (19.0%)	237 (2.6%)	103 (1.1%)	38 (0.4%)	23 (0.3%)	2,123 (23.4%)
10. Government	19 (0.2%)	0 (0.0%)	1 (0.0%)	0 (0.0%)	1 (0.0%)	21 (0.2%)
Total (%)	7,254 (79.8%)	1,016 (11.2%)	545 (6.0%)	163 (1.8%)	107 (1.2%)	9,085 (100%)

Note: The figures in parentheses represent the percentage of all firms in the sample that belongs to a particular employee size/line of business category. That is, 145 firms in the sample are involved in agriculture, forestry and fishing, and employ fewer than 10 persons. Those 145 firms also represent 1.6% of the total small business sample (i.e., 9085 firms).

TABLE 2-A
Nature and Size of Small Businesses:
Dun & Bradstreet Data Base
(Number of Firms)

Type of Business	Number of Employees					# of Firms (% of Total)
	0-9	10-19	20-49	50-99	100-499	
1. Agriculture Forestry & Fishing	116,514 (2.3%)	9,221 (0.2%)	4,365 (0.1%)	1,188 (0.0%)	1.000 (0.0%)	132,288 (2.6%)
2. Mining	32,536 (0.6%)	6,459 (0.1%)	4,885 (0.1%)	1,675 (0.0%)	1.900 (0.0%)	47,455 (0.9%)
3. Construction	569,528 (11.3%)	51,603 (1.0%)	29,108 (0.6%)	7,952 (0.2%)	4,900 (0.1%)	663,091 (13.2%)
4. Manufacturing	254,290 (5.1%)	68,341 (1.4%)	63,892 (1.3%)	30,286 (0.6%)	35,800 (0.7%)	452,609 (9.0%)
5. Transportation	134,892 (2.7%)	27,629 (0.5%)	20,063 (0.4%)	7,026 (0.1%)	5,000 (0.1%)	194,610 (3.9%)
6. Wholesale Trade	406,389 (8.1%)	72,738 (1.4%)	40,634 (0.8%)	9,705 (0.2%)	5,700 (0.1%)	535,166 (10.6%)
7. Retail Trade	1.158,835 (23.0%)	136,778 (2.7%)	80,130 (1.6%)	21,062 (0.4%)	9,000 (0.2%)	1,405,805 (27.9%)
8. Finance. Insur. & Real Est.	309,755 (6.2%)	46,340 (0.9%)	27,650 (0.5%)	8,052 (0.2%)	6,900 (0.1%)	398,697 (7.9%)
9. Service	912,561 (18.1%)	134,851 (2.7%)	97,310 (1.9%)	32,474 (0.6%)	28,000 (0.6%)	1,205,196 (23.9%)
10. Government	NA	NA	NA	NA	NA	NA
Total (%)	3,895,300 (77.4%)	553,960 (11.0%)	368,037 (7.3%)	119,420 (2.4%)	98,200 (2.0%)	5,034,917 (100%)

Source: Dun's Marketing Services

Note: Figures in parentheses represent the percentage of all small businesses in the U.S. that belongs to a particular employee size/line of business category. That is. there are 116.514 firms in the Dun & Bradstreet data base that are involved in agriculture. forestry and fishing and that employ fewer than 10 persons. Extrapolated to the nation as a whole. those firms account for 2.3 percent of all small businesses.

Appendix B

Characteristics of the Small Business Telephone Customers

General Description

This appendix characterizes small business use of the public telephone network. Table 1-B highlights relationships between the size of firms (e.g., number of employees) and their demand for telephone lines. Tables 2-B and 3-B summarize local and long distance telephone expenditures by individual firms which employ various numbers of persons and which subscribe to varying numbers of telephone lines. The data are responsive to requests for information that have been directed at Bellcore by the Commission's Common Carier Bureau staff as well as staff of the Small Business Committee Telephone Task Force. The data also provide the basis from which the economic effects of end-user charges on small business are estimated.

Findings

1. Demand for Telephone Lines

Table 1-B identifies relationships between the number of persons employed by individual firms and their use of telephone lines. The figures show that small business, as a group, is dominated by companies that employ fewer than 50 persons.

2. Small Business Telephone Expenses

Tables 2-B and 3-B summarize small business expenditures on local and long distance telephone service during the April 1983 study month. Table 2-B categorizes individual firms that make up the study sample by the size of the firm's work force; Table 3-B groups the same 9085 small business customers by the number of lines per firm. The data illustrate several important points about small business use of the public telephone network. These include:

- Small businesses typically spend about 0.5 percent of their total monthly sales on telephone service.
- Expenditures on interstate long distance service normally account for about 45 percent of total monthly charges for local and long distance service.

TABLE 1-B

Demand for Telephone Lines Among Small Business Customers (Number of Firms)

Number of Lines Per Firm	Number of Employees						
	0-9	10-19	20-49	50-99	100-499	Total Firms	Total Lines
1	4,696 (51.7%)	322 (3.5%)	111 (1.2%)	27 (0.3%)	14 (0.2%)	5,170 (56.9%)	5,170 (26.1%)
2	1,369 (15.1%)	257 (2.8%)	98 (1.1%)	32 (0.4%)	16 (0.2%)	1,772 (19.5%)	3,544 (17.9%)
3-4	945 (10.4%)	284 (3.1%)	192 (2.1%)	42 (0.5%)	24 (0.3%)	1,487 (16.4%)	4,920 (24.8%)
5-8	205 (2.3%)	121 (1.3%)	101 (1.1%)	32 (0.4%)	19 (0.2%)	478 (5.3%)	2,877 (14.5%)
9-11	18 (0.2%)	17 (0.2%)	20 (0.2%)	9 (0.1%)	9 (0.1%)	73 (0.8%)	716 (3.6%)
12-15	11 (0.1%)	12 (0.1%)	14 (0.2%)	10 (0.1%)	9 (0.1%)	56 (0.6%)	753 (3.8%)
16-24	4 (0.0%)	1 (0.0%)	7 (0.0%)	3 (0.0%)	10 (1.1%)	25 (0.3%)	498 (2.5%)
25+	6 (0.1%)	2 (0.0%)	2 (0.0%)	8 (0.1%)	6 (0.1%)	24 (0.3%)	1,323 (6.7%)
Total Firms (%)	7,254 (79.8%)	1,016 (11.2%)	545 (6.0%)	163 (1.8%)	107 (1.2%)	9,085 (100%)	
Total Lines (%)	12,729 (64.3%)	3,010 (15.2%)	2,143 (10.8%)	1,035 (5.2%)	884 (4.5%)		19,804 (100%)

TABLE 2-B

Small Business Telephone Expenditures: By Employee Group (Dollars Per Month)

Employees Per Firm	Number of Customers		Average Lines/ Firms	Average # of Employees	Average Monthly Sales	Telephone Expenses					
	Total	Percent				Local*/ Charges	Interstate MTS/WATS/800	Private Line	Intrastate MTS/WATS/800	Monthly Total	(% of Sales)
0-9	7254	79.8%	1.8	3.6	$20,726	$54	$70	$3	$46	$173	0.8%
10-19	1016	11.2%	3.0	12.7	$69,730	$90	$187	$6	$120	$403	0.6%
20-49	545	6.0%	3.9	28.5	$188,846	$117	$338	$5	$222	$682	0.4%
50-99	163	1.8%	6.3	64.5	$327,901	$189	$725	$15	$444	$1,373	0.4%
100-499	107	1.2%	8.3	174.0	$1,578,856	$249	$1,231	$55	$790	$2,325	0.1%
Total/ Average	9085	100%	2.2	9.2	$60,154	$66	$124	$4	$81	$275	0.5%

*/ Local charges include monthly billings only for local business access lines. Thus, the figures are not inclusive of expenses that small business customers pay for other services rendered by local telephone companies. These services include, for example, those associated with Yellow Pages advertising, and call forwarding and other vertical services. These charges were omitted from the analysis principally because they represent discretionary expenses on the part of small business customers.

TABLE 3-B

Small Business Telephone Expenditures:
By Line Group
(Dollars Per Month)

Lines Per Firm	Number of Firms		Lines Per Firm	Average # of Employees		Average Monthly Sales	Telephone Expenses					
	Total	Percent		Per Firm	Per Line		Local*/ Charges	Interstate MTS/WATS/800	Intrastate MTS/WATS/800	Private Line	Monthly Total	(% of Sales)
1	5170	56.9%	1.0	5.0	5.0	$25,765	$30	$23	$16	$1	$70	0.3%
2	1772	19.5%	2.0	8.9	4.5	$73,749	$60	$65	$45	$2	$172	0.2%
3-4	1487	16.4%	3.3	13.4	4.1	$70,922	$99	$165	$107	$5	$376	0.5%
5-8	478	5.3%	6.0	22.4	3.7	$126,262	$180	$541	$347	$13	$1,081	0.9%
9-11	73	0.8%	9.8	42.3	4.3	$235,099	$294	$988	$622	$44	$1,948	0.8%
12-15	56	0.6%	13.4	57.1	4.3	$417,096	$402	$1,645	$1,026	$35	$3,108	0.7%
16-24	25	0.3%	19.9	120.4	6.1	$2,571,557	$597	$3,587	$2,416	$30	$6,630	0.3%
25 Plus	24	0.3%	55.1	100.0	1.8	$499,583	$1,653	$5,675	$3,307	$224	$10,859	2.2%
Total/ Average	9085	100%	2.2	9.2	4.2	$60,154	$66	$124	$81	$4	$275	0.5%

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*/ Local charges include monthly billings only for local business access lines. Thus, the figures are not inclusive of expenses that small business customers pay for other services rendered by local telephone companies. These services include, for example, Yellow Pages advertising, and call forwarding and other vertical services. These charges were omitted from the analysis principally because they pertain to discretionary expenses on the part of small business customers.

Appendix C

The Effect of End-User Charges on Individual Firms

General Description

This appendix highlights the percentage of individual small businesses whose long distance savings will exceed end-user charges. It also contains comparable figures for various groups of firms classified by number of employees and telephone lines. Like the figures contained in Appendix B, data presented herein are responsive to two concerns; namely the Commission's interest in the effects of its Access Charge Plan on firms grouped by the number of telephone lines, and the Small Business Committee Telephone Task Force's interest in looking at the same effects from the perspective of companies with work forces of different sizes.

Table 1-C depicts the percentage of all small businesses whose long distance savings alone will exceed end-user charges. Comparable percentages also are reported for individual groups of firms that employ designated numbers of employees (e.g., 0-9, 10-19, etc.) and that subscribe to designated numbers of telephone lines (e.g., 1, 2, 3-4 etc.)

Table 2-C thru 5-C show distributions of monthly long distance expenditures by small businesses that are grouped by number of employees and telephone lines. Table 2-C, for example, breaks out long distance expenses for all single line small business customers while Table 3-C to 5-C report comparable figures for 2 line, 3-4 line and 5-8 line customers, respectively.

Tables 2-C thru 5-C also contain monthly "breakeven" long distance expenses. This amount simply refers to the total charge for interstate calls that a firm must incur before its savings in long distance expenses will match its end-user charge. In all instances, the breakeven amount is premised on a 30 percent across-the-board interstate rate reduction. Small businesses which spend more than the breakeven amount will experience long distance savings that exceed end-user charges.

Findings

Figures presented the tables below indicate that long distance savings will exceed end-user charges for about one half of all business subscribers. In addition:

- Approximately 46 percent of all firms with fewer than 10 employees and 44 percent of all single line customers will make up the cost of end-user charges through long distance savings alone; all these firms also will benefit from savings in local rate increases that will result from reduced bypass.

- Long distance savings realized by about 62 percent of all small businesses that employ 10 or more persons will exceed end-user charges. The same will be true of 55 percent of all multiline business customers.

- 56 percent of single line firms will not breakeven but will still average $1.17 in toll savings; thus, the overall impact of end-user charges on this group of customers will average $2.64 (i.e., $3.81-$1.17), or about 7.3 percent of their monthly expenses on telephone service when the effect of bypass on local rate increases is not taken into account.

TABLE 1-C

Percentage of Small Businesses
Whose Long Distance Savings
Will Exceed End-User Charges

Employees Per Firm	Lines Per Firm						
	1	2	3-4	5-8	9-15	16+	All Firms
0-9	43%	45%	51%	76%	83%	50%	46%
10-19	53%	54%	57%	74%	86%	33%	58%
20-49	41%	72%	71%	75%	65%	89%	66%
50-99	41%	63%	67%	81%	89%	64%	67%
100-499	29%	75%	75%	84%	78%	75%	71%
All Firms	44%	48%	55%	76%	80%	67%	49%

TABLE 2-C

Savings in Long Distance Expenses vs. End-User Charges: Single Line Customers

(Number of Firms)

Monthly Interstate Long Distance Expenses

Employees Per Firm	$0-10	$10-12.50	$12.50-15	$15-30	$30+	Total Firms	(%)
0-9	2463	204	276	817	936	4696	90.8%
10-19	145	7	17	49	104	322	6.2%
20-49	61	4	6	16	24	111	2.1%
50-99	15	1	2	2	7	27	0.5%
100-499	10	0	0	0	4	14	0.3%
Total	2694	216	301	884	1075	5170	100%
(%)	52.1%	4.2%	5.8%	17.1%	20.8%	100%	

End-User Charge Exceeds Interstate Toll Savings	Breakeven =$13/month	Interstate Toll Savings Exceed End-User Charge

TABLE 3-C

Savings in Long Distance Expenses vs. End-User Charges: 2-Line Customers

(Number of Firms)

Monthly Interstate Long Distance Expenses

Employees Per Firm	$0-25	$25-30	$30-35	$35-100	$100+	Total	(%)
0-9	647	82	59	373	208	1369	77.3%
10-19	97	16	9	79	56	257	14.5%
20-49	22	4	3	38	31	98	5.5%
50-99	9	1	3	10	9	32	1.8%
100-499	2	1	2	4	7	16	0.9%
Total	777	104	76	504	311	1772	100%
(%)	43.8%	5.9%	4.3%	28.4%	17.6%	100%	

End-User Charge Exceeds Interstate Toll Savings	Breakeven =$32/month	Interstate Toll Savings Exceed End-User Charge

TABLE 4-C

Savings In Long Distance Expenses Vs. End-User Charges: 3-4 Line Customers

(Number of Firms)

Monthly Interstate Long Distance Expenses

Employees Per Firm	$0-40	$40-55	$55-60	$60-700	$70+	Total	(%)
0-9	380	87	21	49	408	945	63.6%
10-19	100	23	9	21	131	284	19.1%
20-49	38	17	3	8	126	192	12.9%
50-99	10	4	2	2	24	42	2.8%
100-499	3	3	0	1	17	24	1.6%
Total	531	134	35	81	706	1487	100%
(%)	35.7%	9.0%	2.4%	5.4%	47.5%	100%	

End-User Charge Exceeds Interstate Toll Savings

Breakeven =$56/month

Interstate Toll Savings Exceed End-User Charge

TABLE 5-C

Savings In Long Distance Expenses Vs. End-User Charges: 5-8 Line Customers

(Number of Firms)

Monthly Interstate Long Distance Expenses

Employees Per Firm	$0-50	$50-110	$110-120	$120-150	$150+	Total	(%)
0-9	26	24	4	11	140	205	42.9%
10-19	17	14	3	4	83	121	25.3%
20-49	11	14	3	7	66	101	21.1%
50-99	2	4	0	1	25	32	6.7%
100-499	0	3	0	0	16	19	4.0%
Total	56	59	10	23	330	478	100%
(%)	11.7%	12.3%	2.1%	4.8%	69.0%	100%	

End-User Charge Exceeds Interstate Toll Savings

Breakeven =$111/month

Interstate Toll Savings Exceed End-User Charge

Appendix D

Types Of Small Businesses Whose Savings In Long Distance Expenses Will Exceed End-User Charges

General Description

This appendix summarizes the effect of end-user charges on small businesses that are engaged in different lines of commerce. Specifically, figures reported in Table 1-D categorize firms by type of industry and size of work force.

Percentages reported in the table refer to the percentage of all firms in designated groups whose long distance savings exceed end-user charges. Firms are classified into various types of business on the basis of 2-digit Standard Industrial Classification codes that are contained in the Dun & Bradstreet Market Identifier data base.

Findings

Figures depicted in Table 1-D indicate that:

- Long distance savings will exceed end-user charges for a majority of small businesses involved in agriculture, forestry and fishing; mining; manufacturing; transportation; wholesale trade; and finance, insurance and real estate. The same will be true of a majority of local, state and Federal government offices.

TABLE 1-D

Type of Small Businesses Whose Long Distance Savings Will Exceed End User Charges
(Percentage of Firms)

Type of Business	Number of Employees Per Firm					
	0-9	10-19	20-49	50-99	100-499	Total
1. Agriculture, Forestry and Fishing	44%	74%	83%	100%	N/A	50%
2. Mining	72%	91%	64%	100%	80%	75%
3. Construction	42%	60%	65%	82%	67%	46%
4. Manufacturing	54%	69%	78%	82%	91%	62%
5. Transportation	51%	65%	80%	56%	50%	57%
6. Wholesale Trade	64%	77%	90%	100%	83%	67%
7. Retail Trade	38%	42%	52%	44%	50%	39%
8. Finance, Insurance and Real Estate	53%	45%	46%	45%	80%	52%
9. Services	42%	53%	55%	53%	57%	44%
10. Government	63%	N/A	100%	N/A	100%	67%
Total (%)	46%	58%	66%	67%	71%	49%

NOTE: N/A refers to situations where no firms in the sample belong to a particular employee/type of business category. This is true, for example, of small businesses that are involved in agriculture, forestry and fishing that employ 100-499 persons.

APPENDIX J.—ADDITIONAL MATERIAL CONCERNING THE 50¢ INFORMATION CHARGE

American Collectors Association, Inc.
P. O. Box 35106 Minneapolis, MN 55435-0106 612-926-6547

August 16, 1984

Honorable Ron Wyden, Chairman
Small Business Telephone Task Force
Committee on Small Business
U.S. House of Representatives
1406 Longworth House Office Building
Washington, DC 20515

Dear Congressman Wyden:

I am writing you as the Director of Public Affairs of the American Collectors Association, an international organization of approximately 3,000 debt collection businesses who serve nearly one million credit grantors, principally in the U.S., but also in Canada and 26 other countries.

The 50¢ charge by American Telephone and Telegraph (AT&T) on all long distance directory assistance calls, approved on May 10 by the Federal Communications Commission, is unduly burdensome to the debt collection industry.

Debt collection companies are principally small businesses, averaging 8 to 10 employees per office. Despite their small size, however, these companies use the telephone system extensively in the daily conduct of their businesses.

For your information, I am enclosing copies of comments that we filed with the FCC on December 2, 1983 and April 4, 1984 regarding this issue. I would appreciate it very much if you would include these comments in the official record of your task force.

We are very interested in the work of your committee, and would be happy to provide testimony regarding the effect of these charges on our members at your convenience. Please feel free to contact me if you have any questions or if I can be of assistance.

Thank you, Congressman Wyden, for your consideration.

Sincerely yours,

Carleton W. Fish

Carleton W. Fish
Director of Public Affairs

CWF:mlm

4040 W. 70th Street Minneapolis, MN 55435-4199

COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC. REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE
Before the
Federal Communications Commission
Washington, DC 20554

American Collectors Association, Inc.
4040 W. 70th St. -- Box 35106
Minneapolis, MN 55435
(612) 926-6547

December 2, 1983

COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC.
REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE

Before the
Federal Communications Commission
Washington, DC 20554

December 2, 1983

SUMMARY

The proposal by the American Telephone and Telegraph Company (AT&T) to implement a 75¢ charge on all long distance directory assistance calls will be unduly burdensome to the debt collection industry.

Debt collection companies are principally small businesses, averaging eight to ten employees per office. Despite their small size, however, these companies use the telephone system extensively in the daily conduct of their businesses.

The American Collectors Association respectfully requests that the Federal Communications Commission consider some options regarding the long distance directory assistance charge. These options are discussed in greater detail in the accompanying statement.

For further information contact:

John W. Johnson, Executive Vice President
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4040 W. 70th St. -- Box 35106
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(612) 926-6547

COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC.
REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE
Before the
Federal Communications Commission
Washington, DC 20554

December 2, 1983

Background

The American Collectors Association (ACA), which was formed in 1939, is an international organization of approximately 2,900 debt collection services. All but about 100 of these firms are located in the United States. Members include sole proprietorships, partnerships and corporations, ranging from one-person offices to firms with more than 100 employees. Member offices are located in metropolitan areas, in smaller urban areas, and in rural communities across the nation.

ACA members handle the collection of past-due retail, professional and wholesale accounts receivable for more than 800,000 credit grantors. Last year over $10 billion in past-due accounts were referred to ACA members for collection. To collect those accounts, ACA members contacted more than 20,000,000 consumers who had promised to pay for goods or services by specific dates but who failed to keep those promises.

In most situations, when a bill owed by a consumer debtor to a credit grantor becomes past due, the credit grantor will continue to send statements or overdue notices for one to five months. Then if the consumer ignores those statements, the credit grantor will usually send out one or two collection notices and make at least one collection telephone call before referring the account to a collection service. The average account coming to an ACA member collection service is already six or more months past due, and the consumer debtor has already failed to respond to perhaps six or more different reminders or requests from the credit grantor himself.

To handle their own enormous volume of collection work, all larger credit grantors have a full-time collection department of their own. The largest ones even have dozens of full-time telephone collectors to contact those consumers who have fallen behind in keeping their original payment agreements.

Despite these extensive efforts by creditors, there were still over $10 billion in past-due accounts referred to ACA members last year. Although this is a very small percentage of the total of more than $350 billion of consumer credit outstanding, nevertheless for many businesses it represents a very high percentage of net profit. For example, if a business operates with a profit margin of 1% and if one-half of 1% of that business's gross sales end up in past-due accounts which have to be referred to a professional collection service, it means that one-half of that business's profit is lost unless a professional collector can make some recovery.

So although the collection industry has only about 4,500 full-time, predominantly small business offices involved in it, professional collectors handle a volume of accounts representing a significant part of the potential net profit, or potential net loss, of tens of thousands of businesses and professionals.

Of the nearly 6 million or so unpaid past-due accounts that are turned over to ACA members each month, it is estimated that about 33% are owed by consumers who have moved without providing a forwarding address or telephone number to the creditor. This means that collectors are faced with trying to collect 2 million accounts each month from consumers without having adequate location information about those consumers. In many cases, these accounts are turned over to professional debt collectors by creditors for the very reason that they are no longer able to locate the consumer. This means that just locating millions of consumers who owe past-due accounts is an important job of the professional collector. It is in the location of these consumers that long distance directory assistance telephone calls come into play.

As mentioned earlier, the average collection office is a small business having from eight to ten employees. Despite its small size, however, this average office probably has six or seven telephone lines in daily use. Even the smallest collection offices in the industry usually have two or more telephone lines, while the largest offices may have more than 100 lines. In 1982, the average ACA member collection office paid $1,040 per month for telephone service. Telephone bills for the smallest collection offices currently average around $300 or $400 monthly, while those of the largest offices may be as high as $50,000 per month or more. A significant portion of those monthly bills is for long distance service, since many of the accounts referred by creditors to debt collectors are against debtors residing out of the immediate area, or debtors who have moved away from the area.

1983 average?

The tariff submitted by AT&T, scheduled to become effective January 1, 1984, but delayed until April 3, 1984, will be extremely burdensome for the debt collection industry, and ultimately for all credit grantors, especially those who collect some of their own accounts. Specifically, the proposal by AT&T to charge 75¢ for each long distance directory assistance call will be very difficult for the collection industry to absorb.

Access Charges

It appears to be a foregone conclusion that at least business telephone users will pay a monthly access charge beginning on April 3, 1984. At present, the access charge has been established initially to be $6 per line per month for multi-line business users. If the legislation pending before Congress to place a moratorium on access charges for residential customers should pass, it is anticipated that the access charge for multi-line business users may be set higher than the $6 per line per month level. Assuming, however, that the access charge remains at $6 per line per month, the average collection office with seven telephone lines would pay $42 per month in access charges, or an increase of about 4% over the present average monthly telephone bill of $1,040. Access charges paid by the smallest collection offices to the very largest would also represent about a 4% increase in the monthly telephone bill, regardless of its present size. This additional cost, although unpleasant, can be absorbed by most collection offices without any major difficulty.

Long Distance Directory Assistance

The 75¢ per call charge for long distance directory assistance, however, will be extremely burdensome for the collection industry. For example, a recent spot check from a sampling of ACA member collection offices produced the following statistics:

1. The median number of telephone lines in the collection offices in this sampling was 14. While higher than the number of lines in the mythical "average" collection office, this number is nevertheless representative of the major portion of the industry. The number of lines in the offices sampled ranged from a low of one to a high of 85.

2. The median number of calls made to long distance directory assistance by the offices sampled was 63 calls per line per month. The number of long distance directory assistance calls ranged from a low of six calls per line per month to a high of 579 calls per line per month.

3. Multiplying the median number of 63 long distance directory assistance calls per line per month by the median number of 14 lines in the offices sampled produces an average of 882 long distance directory assistance calls per month for the collection offices in this sample.

4. At 75¢ per call, these 882 directory assistance calls would result in an increase of $661.50 in the monthly collection office telephone bill. Adjusting the average monthly telephone bill in the industry for the slightly larger average office in this sample, this additional expense of $661.50 per month would represent an increase of approximately 40% in the monthly collection office telephone bill.

5. This increase of 40% in the monthly telephone bill due to charges for long distance directory assistance calls is fairly consistent among the offices in our spot check. Based on the long distance directory assistance call volumes reported by the smallest agencies in our sample, those having only one or two telephone lines,

even their monthly bills would increase by 40-50% if this 75¢ per call charge is implemented. The situation would be similar for the largest offices.

6. AT&T's proposal to reduce its long distance rates by approximately 10% would offset these increased expenses somewhat, but not to a significant extent. Moreover, AT&T is threatening to decrease these reductions in its long distance rates in the wake of approval of H.R. 4102 by the U.S. House of Representatives.

Why do debt collectors make such a large volume of long distance directory assistance calls? Basically, it's because directory assistance is the only source of telephone numbers for a very large number of consumer debtors from whom members of the collection industry collect.

For example, one ACA member office in the midwest has 15 outbound telephone lines, including WATS lines, plus four incoming 800 WATS lines. That office estimates it makes approximately 90 long distance directory assistance calls per day, or 1,980 calls in a 22-working-day month. This office has purchased telephone directories for all of the major cities in its own state and for several major cities out of state. The office spends some $700-$800 annually for telephone directories. In addition, the office spends several hundred dollars more per year for cross-reference directories published by private publishers. Personnel in this office always check the directories first before calling directory assistance. The 90 calls per day that this office makes to long distance directory assistance are all made to obtain numbers not available in any of the directories in the office.

In the office in this example, as in most collection offices,
there are principally three reasons for using long distance directory
assistance. In some cases, directory assistance is contacted because the
1. consumer debtor resides in an area for which the office does not have
a directory. In many other instances directory assistance is
2. contacted because the number in the directory has been disconnected
without referring the caller to a new number. In still other
3. instances directory assistance is contacted because there is no
directory listing for the individual.

The first reason for contacting long distance directory assistance for a number, that of not having directories for all locations available in the office, could be eliminated if the agency were to purchase directories for more areas of the country and keep them on hand in the office. However, it is simply not feasible for a collection office in the midwest, for example, to keep on hand in the office directories for cities in south Florida, for example, when it is highly unlikely that the agency will ever need to contact more than one or two consumers in that location. The storage requirements alone to keep on hand a large number of directories makes such a course of action unfeasible. Another option would be to obtain all of these directories on microfiche, such as is available from Bell & Howell Corporation, but again the expense involved (currently $4,150 for directories covering 1,500 cities, going up to $4,985 in 1984) is high and the usefulness of this resource is limited. And even if a collection office were to keep on hand all of this directory information it would still not alleviate the other reasons for contacting long distance directory assistance.

A second reason for using long distance directory assistance is that much of the information in telephone directories is inaccurate. It's common knowledge that American society is becoming increasingly transient. In an average year, 20% of the American people will move from one location to another. Within 5 years it is estimated that 45% of the American people change residences. And the consumer debtor population with whom the collection industry deals is much more mobile than the national average. We know that the vast majority of these people who change residences also change their telephone numbers, but no information exists on the volume of annual turnover of telephone directory listings. Neither the Bell System nor other publishers of telephone directories and directory information are able to come up with any estimates of the percentage of turnover of directory listings in an average year. The experience of the debt collection industry says that this turnover is high, since in many cases consumers cannot be reached at the telephone numbers published in the directories. This problem cannot be solved by merely purchasing more directories.

A third reason for using long distance directory assistance, that of having no listing in the directories for a given individual, is also not solved by stocking directories in the office. A large number of American citizens choose not to have their telephone numbers listed in telephone directories. Statistics provided by the Bell system on the numbers of people with nonpublished telephone numbers range from about 8% in rural areas to as high as 40% or 45%% in major metropolitan areas such as Los Angeles and New York City. According to AT&T, the national average for nonpublished numbers is about 14%. While debt collectors are not able to obtain these numbers even from long distance directory assistance, they nevertheless must make the attempt to obtain the numbers that are not available in the telephone directory. And again the consumer debtor population tends to have a higher than average proportion of nonpublished telephone numbers, which requires collectors to make the attempt to obtain these numbers through long distance directory assistance.

Possibly at some point in the future an enterprising individual will compile telephone listings on the national level with greater accuracy than the information available through telephone directories and will make the information available to collectors and others through a computer data base or some other type of technology. In the meantime, however, the collection industry is faced with the necessity of making large numbers of contacts to long distance directory assistance in an attempt to obtain accurate telephone numbers. And it's not only debt collection specialists that have this need. Any of the more than one million credit grantors throughout the country who make any attempt to collect their own accounts, and many of them do, are faced with the same problem.

Other Options

The collection industry is certainly cognizant of the problems encountered by AT&T with respect to the divestiture order of the U.S. Department of Justice. The collection industry is also fully aware of the mandate to the telephone industry by the Federal Communications Commission that telephone rates must move in the direction of charging telephone users on a direct basis for those services that are used by them, and eliminating the system of subsidies that has existed for many years. This is as it should be.

On the other hand, the collection industry is facing some very significant increases in a major expense item, increases that will occur essentially overnight.

Therefore, the American Collectors Association, on behalf of the collection industry, respectfully requests that the Federal Communications Commission investigate and consider elimination or modification of the proposal by AT&T to charge 75¢ for each long distance directory assistance telephone call effective April 3, 1984. The Association proposes the following options for consideration by the Commission.

Option 1. Eliminate or postpone the 75¢ charge to telephone users for long distance directory assistance calls, with the long distance carriers absorbing any charge to them by the local telephone companies for those calls. Obviously, this option would only shift the burden from telephone users back to the long distance carriers, but with telephone users already facing increased charges for access, along with the numerous other increases being proposed by the local phone companies, eliminating or postponing this particular charge would ease the financial burden on telephone users, at least temporarily.

Option 2. Reduce the 75¢ charge for long distance directory assistance calls. The tariffs submitted to the Commission by AT&T relating to divestiture are lengthy and extremely complex. The charge of 75¢ for long distance directory assistance calls appears to be somewhat arbitrary in that the supporting data is somewhat speculative and may not provide adequate justification for a charge of 75¢. Another possibility would be to set the charge at a lower level initially, with AT&T having the option of submitting a new tariff to raise the charge if a year or two of experience under divestiture demonstrates that an increase is warranted.

Option 3. Phase in the charge for long distance directory assistance. Rather than requiring telephone users to pay the full 75¢ charge immediately, the charge could be phased in over a 3-year period with users paying 25¢ per call the first year, 50¢ per call the second year, and then stabilizing at 75¢ per call in the third year and beyond. Both the Commission and AT&T agreed that phasing-in was the proper course to follow with the new access charges, which will be phased in over a 5-year period. Phasing-in the long distance directory assistance charge would allow telephone users to adjust to this new charge over a period of time, yet would assure AT&T of eventually reaching 75¢ per call.

Option 4. Provide a volume discount for heavy users of long distance directory assistance. Many industries base their charges on what they expect the "average" user to consume, but provide discounts for high volume users. A volume discount would recognize the fact that there are certain basic costs involved in maintaining a long distance directory assistance call network, costs which can be spread over a specific number of calls, but that the marginal cost of each succeeding call made through the network decreases. For example, the cost per call is much higher for the 10 thousandth call placed through the network than for the 10 millionth, and the pricing structure should reflect that fact. Again, with little or no statistics available on the volume of long distance directory assistance calls being made it's difficult to establish a cost per call with any accuracy. However, it would make sense to establish a charge of 75¢ per call based on a certain expected call volume, and then provide high volume users with discounts for each call made beyond a base number.

Option 5. Provide a larger free call credit for volume users of long distance directory assistance. In its tariff, AT&T is proposing to allow one free long distance directory assistance call monthly for each telephone user who places a long distance call during the same month over AT&T's long distance lines. The legislation relating to access charges passed by the U.S. House of Representatives would increase this monthly credit to six free long distance directory assistance calls. According to AT&T's figures, the average telephone user spends about $20 monthly on long distance telephone calls. Presumably, AT&T feels that an average telephone user using its long distance lines and therefore making about $20 per month in long distance calls is entitled to one free long distance directory assistance call monthly. It seems fair that a telephone user spending 10, 100 or even 1,000 times that amount of money on long distance calls monthly through AT&T's long distance network should receive a credit of 10, 100 or 1,000 times that which is offered to the "average" user.

The American Collectors Association is well aware that the AT&T divestiture order has forced AT&T to make dramatic operational changes and to restructure its methods of charging for telephone service. This has not been easy for the company, and many problems have yet to be resolved. Likewise, the association understands and accepts that telephone users must pay their fair share for the service they receive. However, the association also feels that immediate implementation of the proposed tariffs will be extremely burdensome for the collection industry, and we urge the Commission to consider the options described above and any other options that may offer greater fairness to telephone users without being detrimental to AT&T.

ACA expresses its appreciation to the members of the Commission for their consideration of these comments.

For further information contact:

John W. Johnson, Executive Vice President
American Collectors Association, Inc.
4040 W. 70th St. -- Box 35106
Minneapolis, MN 55435
(612) 926-6547

American Collectors Association, Inc.
4040 W. 70th St. • Box 35106 • Minneapolis, MN 55435 • 612-926-6547

April 4, 1984

Mr. William J. Tricarico
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, DC 20036

Re: CC Docket No. 83-1145, Phase I

Dear Mr. Tricarico:

Enclosed for filing please find an original and three (3) copies of the comments of the American Collectors Association, Inc. regarding the tariff captioned above.

Please do not hesitate to contact me if you have any questions.

Sincerely yours,

Carleton W. Fish

Carleton W. Fish
Director of Public Affairs

CWF;jkn
Enclosures

COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC. REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE
Before the
Federal Communications Commission
Washington, DC 20554

American Collectors Association, Inc.
4040 W. 70th St. -- Box 35106
Minneapolis, MN 55435
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April 4, 1984

COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC.
REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE

Before the
Federal Communications Commission
Washington, DC 20554

April 4, 1984

SUMMARY

Debt collection companies are principally small businesses, averaging eight to ten employees per office. Despite their small size, however, these companies use the telephone system extensively in the daily conduct of their businesses.

The proposal by the American Telephone and Telegraph Company (AT&T) to implement a 75¢ charge on all long distance directory assistance calls will be unduly burdensome to the debt collection industry. The American Collectors Association (ACA) respectfully challenges the cost basis for such charge, and requests that the Federal Communications Commission consider some options regarding the long distance directory assistance charge. These options are discussed in greater detail in the accompanying statement.

For further information contact:

John W. Johnson, Executive Vice President
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4040 W. 70th St. -- Box 35106
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COMMENTS OF AMERICAN COLLECTORS ASSOCIATION, INC. REGARDING AT&T TARIFFS FOR INTERSTATE SERVICE

Before the
Federal Communications Commission
Washington, DC 20554

April 4, 1984

Background

The American Collectors Association (ACA), which was formed in 1939, is an international organization of approximately 2,900 debt collection services. All but about 100 of these firms are located in the United States. Members include sole proprietorships, partnerships and corporations, ranging from one-person offices to firms with more than 100 employees. Member offices are located in metropolitan areas, in smaller urban areas, and in rural communities across the nation.

ACA members handle the collection of past-due retail, professional and wholesale accounts receivable for more than 800,000 credit grantors. Last year over $10 billion in past-due accounts were referred to ACA members for collection. To collect those accounts, ACA members contacted more than 20,000,000 consumers who had promised to pay for goods or services by specific dates but who failed to keep those promises.

In most situations, when a bill owed by a consumer debtor to a credit grantor becomes past due, the credit grantor will continue to send statements or overdue notices for one to five months. Then if the consumer ignores those statements, the credit grantor will usually send out one or two collection notices and make at least one collection telephone call before referring the account to a collection service. The average account coming to an ACA member collection service is already six or more months past due, and the consumer debtor has already failed to respond to perhaps six or more different reminders or requests from the credit grantor himself.

To handle their own enormous volume of collection work, all larger credit grantors have a full-time collection department of their own. The largest ones even have dozens of full-time telephone collectors to contact those consumers who have fallen behind in keeping their original payment agreements.

Despite these extensive efforts by creditors, there were still over $10 billion in past-due accounts referred to ACA members last year. Although this is a very small percentage of the total of more than $350 billion of consumer credit outstanding, nevertheless for many businesses it represents a very high percentage of net profit. For example, if a business operates with a profit margin of 1% and if one-half of 1% of that business's gross sales end up in past-due accounts which have to be referred to a professional collection service, it means that one-half of that business's profit is lost unless a professional collector can make some recovery.

So although the collection industry has only about 4,500 full-time, predominantly small business offices involved in it, professional collectors handle a volume of accounts representing a significant part of the potential net profit, or potential net loss, of tens of thousands of businesses and professionals.

Of the nearly 6 million or so unpaid past-due accounts that are turned over to ACA members each month, it is estimated that about 33% are owed by consumers who have moved without providing a forwarding address or telephone number to the creditor. This means that collectors are faced with trying to collect 2 million accounts each month from consumers without having adequate location information about those consumers. In many cases, these accounts are turned over to professional debt collectors by creditors for the very reason that they are no longer able to locate the consumer. This means that just locating millions of consumers who owe past-due accounts is an important job of the professional collector. It is in the location of these consumers that long distance directory assistance telephone calls come into play.

As mentioned earlier, the average collection office is a small business having from eight to ten employees. Despite its small size, however, this average office probably has six or seven telephone lines in daily use. Even the smallest collection offices in the industry usually have two or more telephone lines, while the largest offices may have more than 100 lines. In 1982, the average ACA member collection office paid $1,040 per month for telephone service. Telephone bills for the smallest collection offices currently average around $300 or $400 monthly, while those of the largest offices may be as high as $50,000 per month or more. A significant portion of those monthly bills is for long distance service, since many of the accounts referred by creditors to debt collectors are against debtors residing out of the immediate area, or debtors who have moved away from the area.

The tariff submitted by AT&T, scheduled to become effective January 1, 1984, but delayed until June 13, 1984, will be extremely burdensome for the debt collection industry, and ultimately for all credit grantors, especially those who collect some of their own accounts.

In these comments, ACA will address AT&T's proposed directory assistance charge of 75¢ per call. ACA respectfully submits that this per call rate for directory assistance charges is unjustified, and that there is no cost basis for these charges.

Initially, AT&T relied on the proposed local exchange charges for interstate directory assistance for cost justification of its proposed 75¢ directory assistance charge. This reliance was shown to be misplaced and AT&T's cost justification inadequate by comments set forth by the Committee of Corporate Telecommunications Users (CCTU) in this proceeding, dated November 22, 1983. While AT&T has submitted new estimates of IDA costs per message in its Reply Comments, dated January 6, 1984, the access expenses used in its calculations are nationwide averaged charges. We feel that this information is indequate.

It is only reasonable that AT&T's proposed 75¢ charge per call for directory assistance should be cost-justified and based only on actual costs. However, AT&T has not submitted any cost analysis supporting the directory assistance charge. For the public's interest and in the interest of fairness, the rate structure for this charge must be based on actual costs.

AT&T has also failed to explain the wide disparities between interstate directory assistance charges and intrastate charges. We also see no apparent justification for the disparities between interstate directory assistance charges even within the same region. Until and unless the proposed directory assistance charges can be adequately cost-justified, they should be rejected.

Other Options

The collection industry is fully aware of and supports the mandate from the Federal Communications Commission to the telephone industry that telephone rates must move in the direction of charging telephone users on a direct basis for those services that they use, and the elimination of the system of subsidies that has existed for many years. The American Collectors Association, on behalf of the collection industry, respectfully requests that the Federal Communications Commissions consider modification of the proposal by AT&T to charge 75¢ for each long distance directory assistance telephone call effective June 13, 1984. ACA proposes the following options for consideration by the Commission.

Option 1. Provide a volume discount for heavy users of long distance directory assistance. Many industries base their charges on what they expect the "average" user to consume, but provide discounts for high volume users. A volume discount would recognize the fact that there are certain basic costs involved in maintaining a long distance directory assistance call network, costs which can be spread over a specific number of calls, but that the marginal cost of each succeeding call made through the network decreases. For example, the cost per call is much higher for the 10 thousandth call placed through the network than for the 10 millionth, and the pricing structure should reflect that fact. With little or no statistics available on the volume of long distance directory assistance calls being made it's difficult to establish a cost per call with any accuracy. However, it would make sense to establish a charge of X¢ per call based on a certain expected call volume, and then provide high volume users with discounts for each call made beyond a base number.

Option 2. Provide a larger free call credit for volume users of long distance directory assistance. In its tariff, AT&T is proposing to allow one free long distance directory assistance call monthly for each telephone user who places a long distance call during the same month over AT&T's long distance lines. The legislation relating to access charges passed by the U.S. House of Representatives would increase this monthly credit to six free long distance directory assistance calls. According to AT&T's figures, the average telephone user spends about $20 monthly on long distance telephone calls. Presumably, AT&T feels that an average telephone user using its long distance lines and therefore making about $20 per month in long distance calls is entitled to one free long distance directory assistance call monthly. It seems fair that a telephone user spending 10, 100 or even 1,000 times that amount of money on long distance calls monthly through AT&T's long distance network should receive a credit of 10, 100 or 1,000 times that which is offered to the "average" user.

The American Collectors Association is well aware that the AT&T divestiture order has forced AT&T to make dramatic operational changes and to restructure its methods of charging for telephone service. This has not been easy for the company, and many problems have yet to be resolved. Likewise, the association understands and accepts that telephone users must pay their fair share for the service they receive. However, the association also feels that implementation of the proposed tariffs will be extremely burdensome for the collection industry, and we urge the Commission to consider the options described above and any other options that may offer greater fairness to telephone users without being detrimental to AT&T.

ACA is confident that the Commission will take all steps necessary to ensure that the tariffs are generally reasonable and workable before they would be allowed to take effect. ACA expresses its appreciation to the members of the Commission for their consideration of these comments.

For further information contact:

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Minneapolis, MN 55435
(612) 926-6547

Statement of
The American Collectors Association, Inc.
Submitted to the

Special Task Force on Telephone Service of the
Committee on Small Business
U.S. House of Representatives

Concerning Interstate Directory Assistance Charges
October 16, 1984

Statement of
The American Collectors Association, Inc.
Submitted to the

Special Task Force on Telephone Service of the
Committee on Small Business
U.S. House of Representatives

Concerning Interstate Directory Assistance Charges
October 16, 1984

Summary

The American Collectors Association believes that the 50¢ interstate directory assistance IDA charge approved by the Federal Communications Commission on May 10, 1984 is not justified on grounds of cost or explained by any other legitimate regulatory purpose. Based on American Telephone and Telegraph's economic calculations and the subsequent FCC analysis of the IDA costs, this charge should be no more than 41¢.

The Uniform System of Accounts for telephone companies must be revised to provide for a cost accounting system for the telecommunications industry.

ACA urges the Special Task Force on Telephone Services to take up these issues with the FCC, and work to insure that the charges for all telephone services are cost-justified.

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The American Collectors Association, Inc.
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Special Task Force on Telephone Service of the
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Mr. Chairman and Members of the Task Force:

Introduction

The American Collectors Association (ACA) which was formed in 1939, is an international organization of approximately 3,000 debt collection services. All but 100 of these firms are located in the United States. Members include sole proprietorships, partnerships and corporations, ranging from one-person offices to firms with more than 100 employees. Member offices are located in metropolitan areas, in smaller urban areas, and in rural communities across the nation.

ACA members handle the collection of past-due retail, professional and wholesale accounts receivable or nearly one million credit grantors. Last year approximately $12 billion in past-due accounts were referred to ACA members for collection. To collect those accounts, ACA members contacted more than 20 million consumers who had promised to pay for goods or services by specific dates but who failed to keep those promises. These contacts resulted in the return of nearly $3 billion to credit grantors.

In most situations, when a bill owed by a consumer debtor to a credit grantor becomes past due, the credit grantor will continue to send statements or overdue notices for one to five months. Then, if the consumer ignores these statements, the credit grantor will usually send out one or two collection notices and make at least one collection telephone call before referring the account to a collection service. The average account coming to an ACA member collection service is already six or more months past due, and the consumer debtor has already failed to respond to perhaps six or more different reminders or requests from the credit grantor himself.

To handle their own enormous volume of collection work, all larger credit grantors have a full-time collection department of their own. The largest ones even have dozens of full-time telephone collectors to contact these consumers who have fallen behind in keeping their original payment agreements.

Despite these extensive efforts by creditors, there were still approximately $12 billion in past-due accounts referred to ACA members last year. Although this is a very small percentage of the total of more than $350 billion of consumer credit outstanding, nevertheless for many businesses it represents a very high percentage of net profit. For example, if a business operates with a profit margin of one percent and if one-half of one percent of that business's gross sales end up in past-due accounts which have to be referred to a professional collection service, it means that one-half of that business's profit is lost unless a professional collector can make some recovery.

So, although the collection industry has only about 4,500 full-time, predominantly small business offices involved in it, professional collectors handle a volume of accounts representing a significant part of the potential net profit, or potential net loss, of tens of thousands of businesses and professionals.

Of the nearly six million or so unpaid past-due accounts that are turned over to ACA members each month, it is estimated that about 33 percent are owed by consumers who have moved without providing a forwarding address or telephone number to the creditor. This means that collectors are faced with trying to collect two million accounts each month from consumers without having adequate location information about those consumers. In many cases, these accounts are turned over to professional debt collectors by creditors for the very reason that they are no longer able to locate the consumer. This means that just locating millions of consumers who owe past-due accounts is an important job of the professional collector. It is in the location of these consumers that long distance directory assistance telephone calls come into play.

Interstate Directory Assistance

As you know, late last year, AT&T proposed a charge of 75¢ per call to obtain interstate directory assistance information. On December 2, 1983, ACA submitted comments to the FCC expressing our concern and stating that this charge would be unduly burdensome to the debt collection industry. We also filed comments with the FCC on April 4 of this year. On May 10, the FCC announced that it would allow AT&T to charge 50¢ for IDA calls. While ACA filed a petition for reconsideration with the FCC on May 21, the charges went into effect on May 25.

Since then, on June 15 the Direct Marketing Association, Inc. (DMA) and a group called Interstate Directory Assistance Users filed a petition for review with the U.S. Court of Appeals for the District of Columbia Circuit regarding the IDA charge. At DMA's request, ACA withdrew its May 21 petition to the FCC for reconsideration so that the court would not delay consideration of this case while awaiting FCC action on our petition.

The 50¢ IDA charge continues to be a burden for our industry. For example, a recent spot check of ACA member collection offices regarding the use of IDA is presented in Exhibit 1. Members were asked to tell us the number of inter- and intrastate directory assistance calls made in a recent, "typical" month, and the number of employees in their office who made these calls.

The arithmetic mean, commonly referred to as the "average" of the number of interstate directory assistance calls made by this sample was 281, with a range of 0-2,000. The median of these calls, which is simply the figure such that exactly half of the numbers are lower in value and exactly half are higher, is 110. Applying this median average of 110 to 3,000 ACA members yields an average cost per month of $165,000.

Why do debt collectors make such a large volume of long distance directory assistance calls? Basically, it's because directory assistance is the only source of telephone numbers for a very large number of consumer debtors from whom members of the collection industry collect. There are principally three reasons for using interstate directory assistance. In some cases, directory assistance is contacted because the consumer debtor resides in an area for which the office does not have a directory. In many other instances directory assistance is contacted because the number in the directory has been disconnected without referencing the caller to a new number. In still other instances directory assistance is contacted because there is no directory listing for the individual.

Given these realities, collectors have continued and will continue to use IDA in the foreseeable future. However, they are in many cases limiting or reducing their usage (See notes for Exhibit 1) to better control costs.

Challenging the Cost Basis of the 50¢ IDA Charge

ACA is well aware that the divestiture of AT&T has forced dramatic changes in the telecommunications industry, including new methods of charging for telephone service. Likewise, the Association understands that telephone users must pay their fair share for the services they receive. However, we believe that the current charge for IDA is not cost-justified, and therefore unacceptable.

The 50¢ charge for IDA service, approved by the FCC on May 10, is based upon two elements: the cost to AT&T of "access" from local exchange carriers to directory information services; and the cost to AT&T of transporting the inquiry to and from the user on AT&T's interstate network.

The FCC found that AT&T's costs for "access" services would average 30¢ per message, rather than 64¢ as originally estimated by AT&T in support of its 1983 tariff filing for a 75¢ IDA charge. The Commission agreed with AT&T that an average cost per IDA call of 11¢ would be incurred to transport the IDA information purchased from local exchange carriers from the point of AT&T's interconnection with those carriers to the end user purchasing IDA services from AT&T. Summing AT&T's transport cost of 11¢ with the 30¢ cost of purchasing service from local exchange carriers yields a 41¢ cost for IDA service.

Despite this, the Commission approved a 50¢ charge, 9¢ above the total cost of service, including return. (See brief of Direct Marketing Association, Inc. and Interstate Directory Assistance Users vs. FCC, pending before the United States District Court of Appeals for the District of Columbia Circuit, No. 84-1249)

ACA sees no justification for this 21 percent "enhancement" to the charge for this service. Cost-based pricing must be used in setting regulated charges, and the 50¢ IDA charge is unacceptable.

In addition, ACA questions the accounting theory underlying the FCC's approval of a 50¢ per call IDA tariff rate. Specifically, we believe that the Uniform System of Accounts (USOA) used by telephone companies for accounting methods, procedures, and techniques fails to insure a proper allocation of all costs to and among telecommunications services, facilities and products.

In June, 1978, the FCC issued a notice of proposed rule making (NPRM) that suggested a detailed system of accounts for revenues, plant and expenses. It also suggested that the revised USOA capture in its primary allocation records information that could be used to allocate costs not directly attributable within the system of accounts. After considerable delay, in October, 1981, the FCC issued its Second Supplemental NPRM, which essentially proposed a financial accounting system and not the multi-faceted cost accounting and data management system put forth by the 1978 notice.

Clearly, the FCC must base its decisions on accurate and actual costs. We urge the Task Force, therefore, to work with the FCC in creating a cost, rather than a financial accounting system for the telecommunications industry.

Intrastate Directory Assistance Charges

While the 50¢ IDA charge is of great concern to our industry, intrastate charges for directory assistance are also adding to collectors' costs of doing business.

In Washington, intrastate directory assistance charges within the same Area Code are 15¢ per call (six free call allowance). However, calling directory assistance between state Area Codes costs 75¢ per call (same six free call allowance). For example, calling directory assistance from Seattle (206 Area Code) to Spokane (509 Area Code) costs 75¢ per call after the six-call allowance.

Wisconsin has similar bifurcated intrastate directory assistance charges. Specifically, intrastate directory assistance calls within the same Area Code cost 25¢ each (three call allowance). However, if calling directory assistance between Area Code zones, such as from Madison (608 Area Code) to Milwaukee (414 Area Code), the charge is 75¢ per call (after three call allowance).

These charges are within the domain of individual state utilities commissions, but must be considered when reviewing telephone costs which face small businesses. (See Exhibit 1)

Conclusion

Mr. Chairman and Members of the Task Force, the American Collectors Association believes that the work this Committee is doing to investigate how divestiture and recent decisions by the FCC have affected small businesses is significant. We respectfully urge you to work with the FCC to insure that the charge for interstate directory assistance and all telephone services are cost-justified.

Thank you very much for this opportunity to present the thinking of the American Collectors Association, Inc. regarding interstate directory assistance charges.

For more information, contact:

John W. Johnson, Executive Vice President
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Exhibit 1

Number of Inter-State and Intra-State DA Calls
Made by Committee of 100 Member Offices Per Month

Agency	# Inter-State	# Intra-State	Employees
1	106	452	7
2	75	301	12
3	21	30	33
4	303	705	40
5	unkn.	184	13
6	473	2643	62
7	153	935	5
8	55	930	11
9	21	228	8
10	2000[1]	unkn.	70
11	200[2]	1000[3]	15
12	110	300	8
13	568[4]	570	45
14	79	109	11
15	0	13	11
16	1148	unkn.	13
17	29	623	8
18	200	0[5]	5
19	515	238	15
20	487[6]	158	7
21	46	49	5
22	138	18	8
23	441	107	10
24	351	2446	20
25	75	200	30
26	44	472	26
27	27	112	3
28	unkn.	887	12
29	19	2	2
30	86	119	5
31	393	668	8

[1] This member "makes more than 2,000" inter-state DA calls per month. He has started "rationing" the calls, encouraging collectors to wait to call for assistance until they need 2 listings, as the charge is 50¢ for up to 2 listings. He gives his clients 10¢ for each phone number they provide when the account is referred to him for collection, but has found that 40% of his clients don't have phone numbers for the debtors. This agency has a policy of not calling DA unless the account is for $100 or more.

[2] While this agency now has a policy of not making inter-state DA calls, they made 200 calls the first month the charge was in effect.

[3] This member said he "makes thousands" of intra-state DA calls.

Exhibit 1 (continued)

[4] These figures represent calls made by this agency's commercial collection, retail collection and credit bureau divisions.

[5] This agency uses an in-house pay telephone to make intra-state DA calls and accordingly pays $0 for this service. They have a skiptracing department of 5 employees who are the only ones allowed to make DA calls and only call if accounts are for $250 or more.

[6] These figures for inter- and intra-state calls represent calls made by this member's largest office of 7 he owns.

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August 14, 1984

HAND DELIVERY

Kent S. Hall, Economist
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C.

Dear Mr. Hall

My client, the Direct Marketing Association, Inc., welcomes the opportunity to have its members' views on the 50 cent interstate directory assistance charge recently put into effect by the Federal Communications Commission made part of the record of the hearing to be held in Kansas City on August 24. I do not yet have for you yet the identity of the small business DMA member who will submit the testimony, but will provide you with that information as soon as I am able to.

I have enclosed a copy of the Brief that we filed for the DMA in the U.S. Court of Appeals for the D.C. Circuit challenging the FCC action. My notion of the testimony that would be submitted to the Small Business Telephone Task Force is that it would focus exclusively on the first of two arguments contained in the brief, the over-pricing of the IDA service. I would hope, additionally, to be able to provide the task force with some firsthand assessment of the impact of the FCC's IDA decision on a small business entity engaged in the telemarketing business.

I will be back in touch with you with the name of the firm to submit testimony; I would appreciate it if you would let me know as soon as possible the date by which you must have the testimony in hand.

Sincerely

Frank Wiggins

N. Frank Wiggins

Enclosure

cc: Mr. Jonah Gitlitz

UNITED STATES COURT OF APPEALS ~~FOR~~
THE DISTRICT OF COLUMBIA CIRCUIT

DIRECT MARKETING ASSOCIATION, INC.)
and INTERSTATE DIRECTORY ASSISTANCE)
USERS)
)
Petitioners,)
)
v.) No. ____________
)
FEDERAL COMMUNICATIONS COMMISSION)
and UNITED STATES OF AMERICA,)
)
Respondents.)

PETITION FOR REVIEW

Direct Marketing Association, Inc. and Interstate Directory Assistance Users petition this court for review of a final action of the Federal Communications Commission taken in paragraphs 92-93 and 127 and Appendix C of an order in Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, FCC 84-201, released on May 15, 1984.

Respectfully submitted

Ian D. Volner

N. Frank Wiggins

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Counsel for Direct Marketing Association, Inc. and Interstate Directory Assistance Users

June 15, 1984

UNITED STATES COURT OF APPLEALS FOR
THE DISTRICT OF COLUMBIA CIRCUIT

DIRECT MARKETING ASSOCIATION, INC.
and INTERSTATE DIRECTORY ASSISTANCE
USERS

Petitioners,

v.

No. ________________

FEDERAL COMMUNICATIONS COMMISSION
and UNITED STATES OF AMERICA,

Respondents.

MOTION FOR EXPEDITED CONSIDERATION

Direct Marketing Association, Inc., with the concurrence of its co-petitioner, requests that the following schedule be adopted for briefing of this case in order to permit expedited consideration of the matter:

Petitioners brief	~~Filed~~ June 15, 1984
Briefs of intervenors in support of petitioners	July 16, 1984
Brief of respondents and Rule 17(b) certification or stipulation	July 31, 1984
Briefs of intervenors in support of respondents	August 15, 1984
Reply Brief and Deferred Joint Appendix	August 24, 1984
Conformed briefs	September 7, 1984

This schedule will not deprive any participant of statutory or rule-dictated intervals for submissions that they wish to make in the case. Intervenors will have 30 days in which to signal participation in the case, with briefs from intervenors in support of the petitioners filing their briefs at the expiration of that 30 day period. The government will have 45 days in which to analyze our brief (15 days for the briefs of any intervenors) and prepare and file responsive papers. Intervenors on the side of the government will have an additional 15 day period in which to submit briefs, providing the opportunity to minimize redundant argument.

This schedule contemplates the use of a deferred appendix. We request that this be permitted as allowed under Rule 30(b). We will file the deferred Joint Appendix contemporaneously with our reply brief and have allotted the rule-dictated 14 days thereafter for final briefs to be filed.

Adherence to this schedule will permit expeditious consideration by the Court without imposing upon any party. We submit that expedited consideration is important in this case. The issues presented are straightforward and, by our assessment, easily resolved. The case presents a challenge to the 50 cent per call interstate directory assistance charge implemented by AT&T pursuant to FCC authorization. If we are correct in our contention that the rate established by the FCC is unjustifiably high in amount and unreasonably discriminatory in effect, prompt vacation of the Commission action is imperative. The Commission has estimated that the charge will aggregate to $140,000,000 annually. No unnecessary delay in the removal of an unjust burden of this magnitude ought to be tolerated.

Respectfully submitted

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Counsel for Direct Marketing
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June 15, 1984

IN THE UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

No.

DIRECT MARKETING ASSOCIATION, INC.
and INTERSTATE DIRECTORY ASSISTANCE USERS

Petitioners,

v.

FEDERAL COMMUNICATIONS COMMISSION
and UNITED STATES OF AMERICA

Respondents.

On Review of Orders of the
Federal Communications Commission

BRIEF OF PETITIONERS

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UNITED STATES COURT OF APPEALS FOR

THE DISTRICT OF COLUMBIA CIRCUIT

DIRECT MARKETING ASSOCIATION, INC. and INTERSTATE DIRECTORY ASSISTANCE USERS Petitioners,	)	
v.	)	No. ____________
FEDERAL COMMUNICATIONS COMMISSION and UNITED STATES OF AMERICA Respondents.	)	

CERTIFICATE REQUIRED BY RULE 8(c) OF THE GENERAL RULES OF THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

The undersigned, one of the attorneys of record for petitioners, certifies that, in addition to petitioners, and the Federal Communications Commission, the following listed parties appear below:*/

I. Parties Filing Tariffs

A. American Telephone and Telegraph Company

B. Exchange Carrier Assoc.

C. Bell Operating Companies

Bell of Pennsylvania
C&P Telephone
Cincinnati Bell

---

*/ This recitation is derived from the Federal Communication Commission's listing of parties.

Illinois Bell
Indiana Bell
Michigan Bell
Mountain States
Nevada Bell
New England Telephone
New Jersey Bell
New York Telephone
Northwestern Bell
Ohio Bell
Pacific Northwest Bell
Pacific Tel. and Tel.
South Central Bell
Southern Bell
Southern New England
Southwestern Bell
Wisconsin Bell

D. Independent Telephone Companies

Anchorage Telephone Utility
Canby Telephone Assoc.
Carolina Telephone
Centel - Florida
Centel - Illinois
Centel - Minnesota
Centel - Nevada
Centel - North Carolina
Centel - Ohio
Centel - Texas
Centel - Virginia
Century Tel. Enterprises
Citizens Telephone Co.
Concord Telephone Co.
Eagle Telecommunications
East Ascension Tel. Co.
El Paso Telephone Company
Fidelity Telephone Company
General Telephone Op. Cos.
Great Plains Communications
Highland Telephone Company
Kalona Coop. Telephone Co.
Matanuska Telephone Company
Merchants Farmers Tel. Co.

Orchard Farm Telephone Co.
Palo Pinto Tel. Co.
Phillips County Telephone Co.
Pioneer Telephone Coop.
Rochester Telephone Corp.
Small Exchange Telephone Companies
Sylvan Lake Telephone Co.
Telephone Utilities Exchange Carrier Association
United Intermountain - Tennessee
United Intermountain - Virginia
United Tel - Arkansas
United Tel - Carolinas
United Tel - Florida
United Tel - Indiana
United Tel - Iowa
United Tel - Kansas
United Tel - Minnesota
United Tel - Missouri
United Tel - Northwest-Oregon
United Tel - Northwest-Washington
United Tel - Ohio
United System - Pennsylvania
United System - New Jersey
United Tel - Texas
United of the West - Nebraska
United of the West - Wyoming
Urban Telephone Corp.
Walnut Hill Telephone Co.
Wood County Telephone Co.
Wyoming Telephone Company

II. Parties Filing Comments

Ad Hoc Telecommunications Users Committee
Aeronautical Radio, Inc.
Alascom, Inc.
Allnet Communications Services, Inc.
American Broadcasting Companies, Inc, CBS, Inc., and
National Broadcasting Company, Inc.
American Communications Ltd.
American Financial Services Association
American Hotel and Motel Association
American Library Association
American Newspaper Publishers Association
American Satellite Company

American Telephone and Telegraph Co.
Associated Press and Commodity News Services, Inc.
Association of Independent Television Stations, Inc.
Association of Long Distance Telephone Companies
Bryan 800 Communications, Inc.
Bunker Ramo - Eltra Corporation
CAPCON Library Network
City of Los Angeles
Central Committee on Telecommunications of the American Petroleum Institute
Commissioner of Baseball
Committee of Corporate Telecommunications Users
Dow Jones & Company, Inc.
Enhanced Communications Services Association
EMX Telecom
General Communications Incorporated
Federal Executive Agencies with General Services Administration and Department of Defense
GTE Sprint
Hughes Television Network
Independent Data Communications Manufacturers Association, Inc.
International Communications Association
ISACOMM, Inc.
ITT Communications Services, Inc.
ITT World Communications, Inc.
Lexitel Corporation
Local Area Telecommunications, Inc.
Mobile Communications Corporation of America
Missouri Public Service Commission
McCaw Communications Companies
MCI Airsignal, Inc.
MCI Telecommunications Corporation
National Association of State Universities and Land-Grant Colleges with Association of Community College Trustees, American Association of State Colleges and Universities, American Association of University Professors and National Association of College and University Business Officers

National Association of Regulatory Utility
  Commissioners
New York Public Service Commission
Online Computer Library Center
Office of Consumers' Counsel - State of Ohio
J.C. Penney
RCA Communications, Inc.
Rural Telephone Coalition
Satelco
Satellite Business Systems
Satellite Data Broadcast Networks, Inc.
Teltec Saving Communications Co. and
  Satelco Incorporated
Telesphere Network, Inc.
Telocator Network of America
United Press International
United States Telephone Association
U.S. Telephone, Inc.,
Utilities Telecommunications Counsel (21
  separate comments on individual access
  tariffs)
Vermont Department of Public Service and
  Vermont Public Service Board
Westinghouse Broadcasting and Cable, Inc.
Western Union Telegraph Company

Petitioner is unable to determine what position any of these parties may take in regard to this appeal.

Direct Marketing Association, Inc. is a trade association; it is not affiliated with any other corporation or entity and has no parent company or subsidiaries. A list of the members of Direct Marketing Association, Inc. will be provided to the court on request.

Interstate Director Assistance Users is an informal coalition of entities concerned with interstate directory assistance costs. It is not affiliated with any other entity and has no parent company or subsidiaries. The member companies participating for the purpose of this appeal are:

American Council on Education

Texas Hospital Association

Healthcare and Financial Management Association

GC Services Corp.

Hayt, Hayt and Landau

Payco American Corporation

National Association of Credit Management

These representations are made in order that the Judges of this Court, *inter alia*, may evaluate possible disqualification or recusal.

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*/ Cases and authorities chiefly relied upon are marked by asterisks.

UNITED STATES COURT OF APPEALS FOR
THE DISTRICT OF COLUMBIA CIRCUIT

DIRECT MARKETING ASSOCIATION, INC.
and INTERSTATE DIRECTORY ASSISTANCE USERS

Petitioners,

v.

FEDERAL COMMUNICATIONS COMMISSION
and UNITED STATES OF AMERICA

Respondents.

No. ____________

BRIEF OF PETITIONERS

STATEMENT OF ISSUES PRESENTED FOR REVIEW

1. Was the Federal Communications Commission's approval of a tariff price for interstate directory assistance service set at a level far above the cost of providing that service, including a generous return on investment, arbitrary, capricious and otherwise in violation of law?

2. In adopting a rate structure for interstate directory assistance services that has the effect of exacting a charge per call that varies with the number of interstate directory assistance calls made , did the Federal Communications Commission unlawfully endorse an "unjust or unreasonable discrimination in charges . . ." for like communications services?

REFERENCES TO PARTIES AND RULINGS*/

The Direct Marketing Association, Inc. ("DMA") is a trade association of firms engaged in direct response marketing including telephone marketing activities that make extensive use of interstate directory assistance ("IDA") services. Interstate Directory Assistance Users ("IDA Users") in an informal coalition of entities concerned with the costs of IDA service. On October 3, 1983 AT&T Communications ("AT&T") filed a tariff seeking to impose, for the first time, separate charges for IDA services. Local exchange telephone companies also filed tariffs containing charges for supplying IDA service to interstate carriers such as AT&T. DMA and IDA Users filed comments with the Federal Communications Commission ("FCC" or "Commission") opposing the proposed IDA tariff rates.

In an order released February 17, 1984 (Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, FCC 84-51.) (the "ECA Tariff Order") the Commission determined that the tariff justification materials submitted by local exchange carriers in defense of their proposed IDA charges were not sufficient to permit an agency finding that the proposed rates were just and reasonable. Relevant portions of this order are set out in the Joint Appendix ("J.A.") at ___-___. The substance of this action was applied to all local exchange carriers. Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, Mimeo No. 2802 (Released March 7, 1984) ("Non-ECA Tariff Order"). The FCC re-affirmed its action in response to various requests for waiver. Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, Mimeo No. 2964 (released March 16, 1984) ("Waiver Order").

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*/ This case has not previously been before this court or any other court. To the best of counsel's knowledge there is not now pending in this court or any other court any proceeding raising the issues addressed here. Other actions taken by the Federal Communications Commission in the ongoing proceedings giving rise to this appeal are before this court on appeal.

On May 15th of this year the Commission issued a further order addressing for the first time the AT&T IDA tariff. Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I; CC Docket No. 78-72, Phase I, FCC 84-201, (released May 15, 1984) ("AT&T Tariff Order"). In this action the agency determined that it "would accept and allow to become effective the lower, 50 cent [AT&T IDA] charge, provided that customers are allowed at least two free calls per month if the subscriber makes at least two MTS or WATS calls." AT&T Tariff Order at paragraph 92; J.A. ___. It is from this last action that DMA and IDA users take this appeal.

STATEMENT OF THE CASE

In the welter of complex and economically significant issues that surround the FCC's actions in implementation of a new regime of regulation for both local and interstate telecommunications carriers, the issues presented here are narrow and well defined. The AT&T IDA charge challenged here is a severable element of the otherwise interrelated tariff considerations animating the Commission's broader actions.

The AT&T IDA charge approved by the Commission is made up of two analytically discrete elements. First, AT&T incurs costs for its purchase from local exchange carriers of directory information services. This is so because AT&T itself does not maintain the local directory information necessary to provide interstate directory assistance service. AT&T initially (in matter submitted in support of its October, 1983 tariff filing) estimated the cost of services purchased from local exchange carriers at 64 cents. Of this amount, AT&T estimated that it would be required to pay 59 cents to local carriers for "operator assistance" and 5 cents for other service elements. After an initial examination of the tariff support material filed by local exchange carriers, the FCC determined that rates for IDA service to AT&T and other interstate carriers at the levels requested were not justified. As a consequence, the Commission "prescrib[ed]" an interim one-year charge no higher than 25 cents for the . . . [operator] assistance . . . element of access tariffs . . ." and requested "further information from the carriers in order to resolve issues relating to directory assistance . . . ." ECA Tariff Order at paragraph 84; J.A. ___. This result was applied to all local exchange carriers. Non-ECA Tariff Order at paragraph 2; J.A. ___. The FCC re-affirmed the prescription in response to various requests for waiver. Waiver Order at paragraphs 5-6 & n. 1; J.A. ___-___.

As a result of its prescription of the 25 cent operation assistance charge, the FCC found that AT&T's costs for "access" services would be dramatically lower than originally estimated: "We estimate that AT&T's directory assistance access expenses would average 30 cents per message." AT&T Tariff Order at 42-43 n. 48; J.A. ___ n. 48.

Additionally, AT&T estimated to the Commission in its first submission on this topic that an average cost per IDA call of 11 cents would be incurred to transport the IDA information purchased from local exchange carriers from the point of AT&T's interconnection with those carriers to the end user purchasing IDA services from AT&T. Summing AT&T's transport costs of 11 cents with the 30 cent cost of purchasing service from local exchange carriers yields a 41 cent cost for IDA service. The FCC has approved a 50 cent charge for these services.

The fashion in which the Commission has structured the IDA tariff prescribed by it for AT&T effectuates a rate that varies depending upon the number of IDA calls placed. Individuals who make two or fewer IDA calls each month pay nothing for those services.[1] An individual who makes four IDA calls in a month will pay at an effective rate of 25 cents for each of the calls. As the number of calls increases the charge for each call asymptotically approaches 50 cents.[2]

SUMMARY OF ARGUMENT

DMA and IDA Users believe that there are two shortcomings to the Commission's treatment of the IDA issue. The tariff rate for IDA calls is far in excess of the costs which, by the FCC's analysis, are incurred by regulated carriers in supplying IDA service. A divergence from cost-based pricing

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[1] The agency has conditioned eligibility for zero cost IDA calls on making "at least two MTS or WATS calls". AT&T Tariff Order at paragraph 92; J.A. ___.

[2] This tendency is illustrated by the following progression:

Calls/month	Effective rate/call (cents)
2	0
4	25
16	43.75
256	49.61

so great as that evidenced in the agency's treatment of IDA services is impermissible. The touchstone of ratemaking analysis is the measure of the costs of providing service. Regulated prices must--absent the interposition of reasoned and statutorily sanctioned causes for deviation--be set at a level approximating service costs, including a reasonable return on investment. The FCC recognized the applicability of this standard to the IDA services at issue here and advanced no reason for departure from it. If one accepts the agency's calculation of IDA costs, the Commission has permitted AT&T to realize a profit--in addition to a generous return on investment--of nine cents on each fifty cent IDA call. This is an unreasoned and unreasonable generosity.

The unfairness (to all but AT&T) of the level of the IDA rates approved by the Commission is magnified by the structure for application of those rates. Each "main billed account" of AT&T is entitled to make two IDA calls per month without charge; thereafter a charge of fifty cents is applied for each IDA call. This structure was designed to permit "a great majority of . . . subscribers" to obtain IDA information without charge, placing the entire burden of "recovering the costs" on "heavy users." AT&T Tariff Order, Appendix C, p. 1; J.A. ___. This discrimination is neither rational nor just. By the Commission's (and AT&T's) analysis, there is no difference between the cost of the first and second IDA calls made each month by a customer and all subsequent calls; each call carries the same expense. Nor does the agency contend that the social value of the first two IDA calls each month somehow outweighs that of subsequent calls or that the IDA calls made by "heavy users" ought to be valued less than those made by light users. The FCC has consciously discriminated against some IDA customers without a whisper of justification for the discrimination. This rate structure violates the strictures of 47 U.S.C. § 202.

ARGUMENT

I. Introduction

At the threshhold, it is necessary to make clear the limited scope of the issues presented on this appeal.

The imposition of a charge for long distance directory assistance is analytically unrelated to the various "access charge" actions taken by the Commission. The FCC's preference for discrete charges for IDA services antedates AT&T's divestiture of its local exchange facilities and the concomitant need for substantial re-structuring of the system for compensating exchange carriers for the use of their facilities in the completion of interstate calls. See, e.g., In re AT&T, 64 F.C.C.2d 1, 92-93 (1977). A charge for interstate directory assistance could have been proposed and put into effect quite independently of other changes in rates and rate structure addressed in the FCC's various "access charge" actions. This appeal does not implicate the larger -- and far more complex -- issues raised by the access charge decisions.

Within the confines of the Commission's action on IDA charges, the issues we ask this court to resolve are narrow. Traditionally, interstate directory assistance was provided by AT&T at no charge. The Commission action changes that practice. We do not challenge the conclusion that IDA service should be unbundled from MTS and WATS service and separately priced. Our quarrel is only with the staggering and unsupported level at which the rate has been set and the peculiar rate structure used to recover the charge.

For purposes of this appeal, we do not challenge the Commission's interim imposition of a 25 cent charge for the directory assistance service element of the local exchange carriers. Nor do we challenge the even more tenuous decision to allow an additional five cents for exchange carrier local transport and other functions. For purposes of this appeal, we also accept -- as did the Commission -- AT&T's claim that the interstate transport function bears a cost (including return on investment) of 11 cents. This appeal challenges only (a) the Commission's decision to give AT&T nine cents over and above the agency's own assessment of costs (including rate of return) and (b) the rate structure which increases the effective price of IDA services as useage of IDA increases. It is our narrow but emphatic contention that the rate level approved by the Commission can not be reconciled with the "just and reasonable" standard of Sections 201(b), 204(b) and 205(a) of the Act and that the perverse distributional effects resulting from the Commission's approved rate structure produces undue discrimination in contravention of Section 202(a).

II. Scope of Review

It is well within the Court's power on review to set aside the Commission's actions on these grounds. The scope of judicial review of agency action is a function of the degree of discretion which the agency's statutes accord to it: The more narrowly the agency's exercise of judgment is confined by statutory standards, the greater the responsibility of the reviewing court to examine and weigh the reasoning employed to justify the agency's conclusions on the merits. As Judge McGowan has formulated the matter, the Court's first task is to "identify as precisely as possible the aspects of the agency's action against which challenge is brought"; and if the issue is "well suited to judicial oversight" -- involves well defined standards guiding the exercise of agency discretion--the Court may and indeed must review the question with confidence "that our participation will contribute to the rationality and fairness of the agency decision making without detracting unduly from its effectiveness." Natural Resources Defense Council, Inc. v. SEC, 606 F.2d 1031, 1044, 1049 (D.C. Cir. 1979). Conversely, where the Congress has delegated to the agency a broader, more legislative role, the Court's review is necessarily circumscribed. Id. at 1050. Under these standards the two issues we have presented, although interrelated, command somewhat different articulations of the proper scope of judicial review.

The first issue, involving the question of rate level, implicates the congressional dictate that rates be established at a level that is "just and reasonable." The agency action approving a 50 cent IDA charge must be set aside as "arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law"[3] if it is shown that the rate does not fall within a "zone of reasonableness"[4] defining the perimeters of the Commission's permissible discretion in setting rate levels. A reviewing court must extend great deference to an agency's selection of any rate within the "zone of reasonableness" but is obliged to examine carefully the facts and logic by which the permissible zone of agency discretion is calculated. The "just and reasonable standard" of the Communications Act has a specific law content. The agency itself and the courts have repeatedly insisted that costs are the "reference points from which to measure" just and reasonable rates. AT&T Private Line Cases, 34 F.C.C. 217, 231(1961); aff'd sub nom. Wilson and Co. v. U.S., 335 F.2d 788 (7th Cir. 1964), remanded, 382 U.S. 454 (1966). It follows that, to escape the realm of arbitrariness and caprice, an agency decision as to rate level must start from cost. If the agency decides to set rates at levels which depart from cost, it must explain its decision in terms which relate to legitimate and lawful agency purposes:

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[3] 5 U.S.C. § 706(2)(A).

[4] Permian Basin Area Rate Cases, 390 U.S. 747, 767 (1968).

> In terms of ratemaking, the agency's expertise allows us to accept its judgment after it defines the zone of reasonableness; but we cannot rely on claims of judgment to explain how the agency arrived at the zone.

Nader v. FCC, 520 F.2d 182, 193 (D.C. Cir. 1975). When an agency veers from the logic of cost-based pricing so dramatically as to remove its action from any reasonable reliance on costs as a rationale for its action and when it has provided no comprehensible explanation of the statutorily sanctioned reasons for its deviation, a reviewing court is obliged to set the action aside.

The second issue we have presented -- discriminatory rate structure -- requires a more rigorous standard of judicial assessment. The statutory prohibition on rate discrimination is explicit. Section 202(a) of the Act makes it "unlawful" for any common carrier to "make any unjust or unreasonable discrimination in charges" for "like communication service". 47 U.S.C. § 202(a). The determination whether "discrimination" exists in a rate structure, although derived from economic principles, involves a purely legal question which is especially well suited to judicial determination. The further judicial assessment of any defenses of the reasonableness of a "money difference in price" must assure that the Commission has not strayed from the Congress's imposition of an "absolute obligation to prevent unlawful discriminations, regardless of the needs of users or other policy considerations." American Trucking Associations, Inc. v. FCC, 377 F.2d 121, 130 (D.C. Cir. 1966), cert. denied, 386 U.S. 943 (1967). The narrow range of discretion permitted to the Commission results in a concomitantly broad scope of review for a reviewing court.

III. The Agency's Endorsement Of A 50 Cent IDA Charge Is Not Justified On Grounds Of Cost Or Explained By Any Other Legitimate Regulatory Purpose.

The starting point for calculating the "zone of reasonableness" containing just and reasonable rates is to measure costs:

> A basic principle used to insure that rates are "just and reasonable" is that rates are determined on the basis of cost.

MCI Telecommunications Corp. v. FCC, 675 F.2d 408, 410 (D.C. Cir. 1982).

The Commission itself recognized that the starting point for the establishment of just and reasonable rates must be the measure of the cost of providing service. In its ECA Tariff Order, the Commission explained that its determination to impose a separate and specific directory assistance charge is in furtherance of one of its "basic policy goals" which is "to move toward rates which would recover the costs of service from the cost causer where feasible." ECA Tariff Order at paragraph 84; J.A. ___. See also AT&T Tariff Order at paragraph 92; J.A. ___. The Commission has fallen into error not because of its articulation of the test which determines whether rates are just and reasonable but because its conclusion concerning price ignores that standard entirely.

This case does not raise the usual -- and difficult -- question of proper measurement of the costs of service. Cf. Aeronautical Radio, Inc. v. FCC, 642 F.2d 1221 (D.C. Cir. 1980), cert denied, 451 U.S. 920 (1981). Here, the cost of service is not in dispute. The service elements which drive the cost of IDA are agreed upon. They consist of the cost to AT&T of "access" service provided by the local exchange carrier and the cost to AT&T of transporting the inquiry to and from the user on AT&T's interstate network.

By the Commission's own assessment, the cost to AT&T of the first element is 30 cents. AT&T Tariff Order at 42-43, , n. 48; J.A. ___-___ n. 48. As to the second element, AT&T has estimated a cost of 11 cents, 9.5 cents for expenses and 1.5 cents in return on investment. J.A. ___. The Commission nowhere suggests that the 11 cent charge understates AT&T's costs. Thus, by the agency's measure, the cost basis of AT&T's IDA service is 41 cents.

Despite this, the Commission dictated that the rate be set at 50 cents, 9 cents above the total cost of service, including return. The agency's determination to include an "additive" of this magnitude catapults the IDA rate out of the zone of the just and reasonable into the realm of caprice. See San Antonio, Texas v. U.S., 631 F.2d 831, 850-53 (D.C.Cir. 1980), clarified, 655 F.2d 1341, rev'd on other grounds sub nom. Burlington Northern, Inc. v. U.S., 459 U.S. 131 (1982). The Commission has offered no cogent explanation for this extraordinary deviation from cost-based pricing.

The Commission offers only one sentence of excuse for its conclusion that a 50 cent per call IDA charge is reasonable in light of costs to AT&T of providing IDA service:

> AT&T has stated in response to this decision [setting the operator assistance portion of local exchange company charges at no more than 25 cents per call] that it believes a 50 cent per call IDA charge with one free call would be reasonable.

AT&T Tariff Order at paragraph 92; J.A. ____. In light of the Commission's own calculation of AT&T's IDA costs at the level of 41 cents per call, the invocation of AT&T's beliefs is an insufficient basis for any alternative judgment of costs.

In all events, there is no factual basis for this newly evolved--and unexplained--belief of AT&T. In its initial tariff submission to the Commission, AT&T calculated its payments to local exchange carriers for IDA "access" as 64 cents, on average, for each IDA call.[5/] Of this amount 59 cents represented AT&T's calculation of the operator assistance portion of the local exchange carriers charge. In the ECA Tariff Order, the FCC provided that no local exchange carrier would be permitted to charge more than 25 cents per call for the service that AT&T had estimated to cost 59 cents per call. Thus, instead of expense attributable to local exchange carrier charges of 64 cents (59 cents plus five cents) AT&T faced, after the Commission's ECA Tariff Order, an expense for local exchange IDA access of 30 cents (25 cents plus five cents). AT&T has not, in any presentation made

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5/ AT&T's initial submission proposed a charge of 75 cents for each IDA call but would have allowed one IDA call "free" for each "main billed account" when the subscriber made at least one MTS or WATS call over AT&T facilities during the month. It is not clear from the information submitted by AT&T in support of its 75 cent proposal whether the cost per call it calculated there included the expenses of the "free" calls for which it proposed not to bill its customers. If the "free" call costs were included, the cost estimates are overstated by the aggregate cost of those calls.

available for public scrutiny and comment, altered its original calculation of an 11 cent price (9.5 cents of expense and 1.5 cents rate of return) for each IDA call in addition to the local exchange access charge. It is not difficult to understand that AT&T should conclude that a charge of 50 cents for services with a cost to the company of 41 cents is "reasonable". But, the reasoning behind this conclusion is alien to the FCC's duty to insure just rates.

There does emerge from the FCC's brief discussion of proper IDA charges in the AT&T Tariff Order an explanation for the agency's determination to price IDA calls significantly above the cost to AT&T of providing IDA services. But the agency's purpose, no less than its result, is statutorily impermissible. As the Commission calculated it, "this charge would provide AT&T with about $140 million in revenue for its switched services in 1984." AT&T Tariff Order at paragraph 92; J.A. ___ (footnote omitted). The burden of the Commission's rationale in the AT&T Tariff Order was to rebut AT&T's calculation of the extent to which previous Commission actions would reduce AT&T's rate of return in the provision of interstate services to a confiscatorily low level. The agency employed two strategies in doing so. It dismissed some of AT&T's calculations of expense as overstated and it rejected AT&T's calculations of revenue as understated:

> To summarize this analysis, we find that . . . AT&T's February 27 filing unreasonably understated its revenues (net of associated expenses) by at least $225 million.

AT&T Tariff Order at paragraph 93; J.A. ______. Of this $225 million understatement of revenues, $140 million was owing to the Commission's calculation of the proceeds of a 50 cent IDA charge. Thus, by finding significant "additional revenues" for AT&T in the form of an IDA charge, the Commission blunted AT&T's allegations that the sum of the Commission's access charge actions would deprive the carrier of a fair rate of return. Indeed, with the Commission's recalculation, AT&T could decrease the rates charged by it for MTS and WATS service and still achieve a return at levels thought by the FCC to be reasonable, if not generous.

It is, of course, not defensible to justify a charge for IDA services considerably above the cost of those services by reference to the collateral economic effect of such a charge on the overall financial condition of AT&T. As this court noted in San Antonio, Texas v. U.S., 631 F.2d at 852, such logic "could be put forth just as readily in an attempt to justify a 1%, 21%, 45% or even 99% additive." The FCC's attempt to boost IDA rates from the calculated cost level of 41 cents to 50 cents entails a 21% "additive" that must not be permitted.

IV. The Rate Structure Adopted by the Commission For AT&T's IDA Charges Discriminates Unreasonably Among Consumers of IDA Service.

There can be no question but that the rate structure endorsed by the FCC in its AT&T Tariff Order for recovery of IDA costs discriminates among consumers of IDA service. As illustrated in n. 2 above, an effective rate per IDA call ranging from zero cents to almost 50 cents derives from the Commission's determination that, for each "main billed account", each of the first two IDA calls per month should be "free" and each IDA call thereafter is billed at the rate of 50 cents per call.

We do not contend that the Communications Act forbids entirely the adoption of common carrier rates that discriminate among consumers. We do insist--as does the language of the Communications Act--that any rate with a discriminatory impact be justified in terms of collateral values permissible to the FCC under the statute. Most commonly, discriminatory rate structures are defended on the ground that different classes of customers cause the service supplier to incur different varieties or levels of cost. *See, e.g.*, *American Trucking Associations, Inc.* v. *FCC*, 377 F.2d at 131; *Fort Pierce Utilities Authority* v. *FERC*, 730 F.2d 778 (D.C.Cir. 1984). The FCC has not advanced any such justification here and there exist no facts to support the conclusion that different levels of consumption of IDA services impose differing costs upon AT&T.

The Commission's prescription of the operator assistance portion of the charge to be paid by AT&T to local exchange carriers ensures that this significant cost component in the provision of AT&T IDA services will be constant for each IDA call. [period.] The FCC's adoption of AT&T's estimate that, on average, an additional five cent charge per IDA call will be levied by local exchange carriers for AT&T's IDA access also signals the agency's (and AT&T's) persuasion that the cost to AT&T of each IDA call is identical.[6/] Nothing in AT&T's submissions suggests that the estimated 11 cent per IDA call transport charge will vary as a function of overall IDA call volume or the volume of IDA calls originating from

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[6/] In the comments submitted to the Commission by DMA it was argued that both the local exchange component and the AT&T transport component of IDA calls might well differ from customer to customer. In those comments DMA suggested that special provision be made to reflect the fact that high volume IDA consumers could effectively decrease the cost of local exchange carrier service if direct interconnection were permitted to such customers and also urged that the AT&T transport cost ought to be made sensitive to both distance and time of day to reflect the fact that high volume consumers might thereby be encouraged to structure their use of IDA services in a fashion that would minimize the cost both to telephone companies and, consequently, to them. The FCC did not address any of these points. This stands as an eloquent demonstration of the agency's commitment to the proposition that the cost of each IDA call is [and] identical to that of the calls preceding and following it.

any customer. There can, then, be no assertion that a difference in the effective rate charged for IDA calls is warranted on the basis of different IDA costs per call as a function of volume or any other factor.

In closely limited circumstances non-cost factors such as value of service may be invoked to justify price discrimination. See Payne v. Washington Metropolitan Transit Commission, 415 F.2d 901, 916-17 (D.C.Cir. 1969). We are quite frankly unable to extract from the FCC's discussion of its rate structure any clear explanation for the course to which the agency has dedicated itself. Among the utterances of the agency on the topic of IDA rates there exists no cogent and defensible rationale for the discrimination inherent in the rate structure adopted by the Commission.

> It is the Commission's general policy in this proceeding to bring rates more in line with costs, to improve the efficiency and fairness of telephone prices. In this case, the costs of IDA should, we believe, fairly be borne by those who use it. In particular, ordinary subscribers who make few IDA calls should not subsidize the business users who make heavy use of this "free" service. By unbundling IDA from the overall MTS rates, costs should be more fairly recovered, and customers will be given an appropriate price incentive to make efficient use of the service. At the same time, we recognize here as in other areas of the access plan, that we must be sensitive to customer needs. Free IDA calls provide the long distance equivalent of a free local telephone book, and

> information needed by the subscriber to complete calls. Balancing these needs, we believe that allowing a minimum of two free calls per month will provide the interstate long distance information needed by the great majority of local subscribers, while still encouraging efficient use of the service and recovering the costs fairly from heavy users.

AT&T Tariff Order, Appendix C at 1.

The twin concepts of "efficiency and fairness" invoked by this statement are integrally related to cost-based pricing.[7] It is neither efficient nor fair that some consumers should pay less than the full cost of IDA service while others pay more. Yet this is precisely the effect of the FCC's rate structure. At the 41 cent per call cost figure calculated by the Commission and AT&T for IDA services, every IDA customer who makes fewer than 12 calls per month will pay less than 41 cents for each of those calls; each customer who makes 12 calls or more will pay at an effective rate of more than 41 cents per call.[8] Conventional economic analysis conclude that this price structure is unfair and inefficient for all.

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[7] In Section III of this brief we establish that the Commission has not based IDA rates on the costs of providing IDA service. In the immediate context we need not depend upon this conclusion to establish that, whatever the proper measure of cost for each IDA call, the Commission has advanced no basis for concluding that the cost per call varies with volume.

[8] The caller who places 11 IDA calls in a month will pay $4.50 (nine times .50), or 40.9 cents per call. The customer who places 12 calls will pay $5.00 (10 times .50), or 41.66 cents for each call. This analysis applies equally, although the number of calls marking the dividing point between those who pay less than cost and those who pay more will vary, if one accepts 50 cents a call as an appropriate cost base for pricing.

The next thought in the Commission's discussion, the idea that "cost of IDA should. . .fairly be borne by those who use it" adds nothing to the analysis. Nor does the sentence next following:

> In particular, ordinary subscribers who make few IDA calls should not subsidize the business users who make heavy use of this "free" service.

This sentiment is an inadequate defense for a rate structure that has the obverse effect. It does not justify a rate structure in which heavy users subsidize the "ordinary subscribers."

We have addressed the philosophy of "appropriate price incentives" and demonstrated that the FCC has adopted a rate structure for IDA calls in which the services provided to every customer are either below or above costs. This eccentric cost distribution system will give the wrong price incentives to all and assure inefficient use of the service. In apparent recognition of this fact the Commission adverts to "customer needs," noting that "free IDA calls provide the long distance equivalent of a free local telephone book, and information needed by the subscriber to complete calls." This court has cautioned that "the needs of users or other policy considerations" serve poorly as defenses for discriminatory rates. American Trucking Associations, Inc. v. FCC, 377 F.2d at 130. Even were "customer needs" a good basis for justifying discriminations among customer classes, the Commission's statement would not support its action, because it does not explain the limit on "information needed by the subscriber to complete calls" imposed by the two free call provision. All IDA users require directory information to conclude calls. This is true without regard to the number of enquiries made in any month. The FCC's decision to discriminate against "heavy users" cannot be defended on this ground.

We are, then, wholly unable to understand how "in balancing these needs" the Commission is able to conclude that interstate long distance information needed by the great majority of local subscribers should be provided without direct charge, "while still encouraging efficient use of the service and recovering the costs fairly from heavy users." The cost to AT&T of every IDA call is the same. The fact that a "great majority" of telephone users make no more than two IDA calls each month does not justify providing service to those customers for free while exacting a charge from other customers.[9/]

[9/] Even if there did exist a permissible rationale for burdening "heavy users" with IDA charges disproportionate to those exacted from others, the Commission's rate structure would not constitute a rational mechanism for achieving this end. The agency's endorsement of AT&T's allocation of "free" IDA calls on the basis of "main billed account[s]" would count as a "heavy user" the consumer with 15 business lines and 15 telephone instruments who consumed 15 IDA calls (or one per instrument) in a month. But the user with a single line and single instrument who used twice as many IDA calls in a month would be classed as a light user.

One further statement by the Commission hints that the discriminatory rate structure it has adopted may be only transitional:

> allowing only one free IDA call per month per customer would give too little opportunity for customers to make the transition to separate charges for this service. Some business and residential customers may want to reorganize the methods by which they obtain and store telephone numbers.

AT&T Tariff Order at paragraph 92; J.A. ____ - _____. We are most emphatically in favor of gradualism in the institution of IDA charges. DMA argued for this result in its comments to the Commission. The "transition" afforded by the two "free" call structure falls unequally, however. For those--the "heavy users"--for whom IDA service is an integral part of established business operations the transition afforded by the Commission is ephemeral. The Commission permitted a period of transition of precisely 10 days (from May 15 to the May 25 effective date of AT&T's re-filed tariff) to "reorganize the methods by which [these customers] obtain and store telephone numbers." The agency recognizes that such an abrupt swing from the previous practice of bundled IDA costs to a 50 cent per call IDA charge carries with it considerable "hardship."[10]

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[10] "The two free calls per month should relieve much of the hardship from this change . . . ." Id.

It has chosen to focus that hardship on one segment of the IDA using population--the "heavy users"--with no justification for this discrimination other than its persuasion that "the great majority" will not be harmed and that imposition of the cost will reward AT&T with significant additional revenues. Discrimination on these bases is neither just nor reasonable.

CONCLUSION

The FCC's approval of a 50 cent per call IDA tariff rate for AT&T is arbitrary and capricious because it sets a price outside of the "zone of reasonableness" of service costs. The rate structure instituted is impermissibly discriminatory because it exacts different effective charges from consumers of like communications services. The agency action must be reversed and the matter remanded to the Commission for the agency's further consideration of just, reasonable and non-discriminatory IDA rates.

Respectfully submitted

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STATUTORY APPENDIX

5 U.S.C. § 706

§ 706. Scope of review

To the extent necessary to decision and when presented, the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of an agency action. The reviewing court shall—

(1) compel agency action unlawfully withheld or unreasonably delayed; and

(2) hold unlawful and set aside agency action, findings, and conclusions found to be—

(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law;

(B) contrary to constitutional right, power, privilege, or immunity;

(C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right;

(D) without observance of procedure required by law;

(E) unsupported by substantial evidence in a case subject to sections 556 and 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute; or

(F) unwarranted by the facts to the extent that the facts are subject to trial de novo by the reviewing court.

In making the foregoing determinations, the court shall review the whole record or those parts of it cited by a party, and due account shall be taken of the rule of prejudicial error.

SEC. 201. (a) It shall be the duty of every common carrier engaged in interstate or foreign communication by wire or radio to furnish such communication service upon reasonable request therefor; and, in accordance with the orders of the Commission, in cases where the Commission, after opportunity for hearing, finds such action necessary or desirable in the public interest, to establish physical connections with other carriers, to establish through routes and charges applicable thereto and the divisions of such charges, and to establish and provide facilities and regulations for operating such through routes.

(b) All charges, practices, classifications, and regulations for and in connection with such communication service, shall be just and reasonable, and any such charge, practice, classification, or regulation that is unjust or unreasonable is hereby declared to be unlawful: *Provided*, That communications by wire or radio subject to this Act may be classified into day, night, repeated, unrepeated, letter, commercial, press, Government [45] and such other classes as the Commission may decide to be just and reasonable, and different charges may be made for the different classes of communications: *Provided further*, That nothing in this Act or in any other provision of law shall be construed to prevent a common carrier subject to this Act from entering into or operating under any contract with any common carrier not subject to this Act, for the exchange of their services, if the Commission is of the opinion that such contract is not contrary to the public interest: *Provided further*, That nothing in this Act or in any other provision of law shall prevent a common carrier subject to this Act from furnishing reports of positions of ships at sea to newspapers of general circulation, either at a nominal charge or without charge, provided the name of such common carrier is displayed along with such ship position reports. The Commissioner may prescribe such rules and regulations as may be necessary in the public interest to carry out the provisions of this Act.[46]

SEC. 202. (a) It shall be unlawful for any common carrier to make any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities, or services for or in connection with like communication service, directly or indirectly, by any means or device, or to make or give any undue or unreasonable preference or advantage to any particular person, class of persons, or locality, or to subject any particular person, class of persons, or locality to any undue or unreasonable prejudice or disadvantage.

(b) Charges or services, whenever referred to in this Act, include charges for, or services in connection with, the use of common carrier lines of communication, whether derived from wire or radio facilities, in chain broadcasting or incidental to radio communication of any kind.[47]

(c) Any carrier who knowingly violates the provisions of this section shall forfeit to the United States the sum of $500 for each such offense and $25 for each and every day of the continuance of such offense.

47 U.S.C.

SEC. 204. (a) Whenever there is filed with the Commission any new or revised charge, classification, regulation, or practice, the Commission may either upon complaint or upon its own initiative without complaint, upon reasonable notice, enter upon a hearing concerning the lawfulness thereof; and pending such hearing and the decision thereon the Commission, upon delivering to the carrier or carriers affected thereby a statement in writing of its reasons for such suspension, may suspend the operation of such charge, classification, regulation, or practice, in whole or in part but not for a longer period than five months beyond the time when it would otherwise go into effect; and after full hearing the Commission may make such order with reference thereto as would be proper in a proceeding initiated after such charge, classification, regulation, or practice had become effective. If the proceeding has not been concluded and an order made within the period of the suspension, the proposed new or revised charge, classification, regulation, or practice shall go into effect at the end of such period; but in case of a proposed charge for a new service or an increased charge, the Commission may by order require the interested carrier or carriers to keep accurate account of all amounts received by reason of such charge for a new service or increased charge, specifying by whom and in whose behalf such amounts are paid, and upon completion of the hearing and decision may by further order require the interested carrier or carriers to refund, with interest, to the persons in whose behalf such amounts were paid, such portion of such charge for a new service or increased charges as by its decision shall be found not justified. At any hearing involving a charge increased or sought to be increased, the burden of proof to show that the increased charge, or proposed charge, is just and reasonable shall be upon the carrier, and the Commission shall give to the hearing and decision of such questions preference over all other questions pending before it and decide the same as speedily as possible.

(b) Notwithstanding the provisions of subsection (a) of this section, the Commission may allow part of a charge, classification, regulation, or practice to go into effect, based upon a written showing by the carrier or carriers affected, and an opportunity for written comment thereon by affected persons, that such partial authorization is just, fair, and reasonable. Additionally, or in combination with a partial authorization, the Commission, upon a similar showing, may allow all or part of a charge, classification, regulation, or practice to go into effect on a temporary basis pending further order of the Commission. Authorizations of temporary new or increased charges may include an accounting order of the type provided for in subsection (a).[40]

47 U.S.C.

SEC. 205. (a) Whenever, after full opportunity for hearing, upon a complaint or under an order for investigation and hearing made by the Commission on its own initiative, the Commission shall be of opinion that any charge, classification, regulation, or practice of any carrier or carriers is or will be in violation of any of the provisions of this Act, the Commission is authorized and empowered to determine and prescribe what will be the just and reasonable charge or the maximum or minimum, or maximum and minimum, charge or charges to be thereafter observed, and what classification, regulation, or practice is or will be just, fair, and reasonable, to be thereafter followed, and to make an order that the carrier or carriers shall cease and desist from such violation to the extent that the Commission finds that the same does or will exist, and shall not thereafter publish, demand, or collect any charge other than the charge so prescribed, or in excess of the maximum or less than the minimum so prescribed, as the case may be, and shall adopt the classification and shall conform to and observe the regulation or practice so prescribed.

(b) Any carrier, any officer, representative, or agent of a carrier, or any receiver, trustee, lessee, or agent of either of them, who knowingly fails or neglects to obey any order made under the provisions of this section shall forfeit to the United States the sum of $1,000 for each offense. Every distinct violation shall be a separate offense, and in case of continuing violation each day shall be deemed a separate offense.

AMAN COLLECTION SERVICE, INC.
1 SO. 1ST STREET P.O. BOX 730
ABERDEEN, SOUTH DAKOTA 57401
PHONE (605) 229-0100

November 15, 1984

Representative Ron Wyden, Chairman
Small Business Telephone Task Force
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

Dear Representative Wyden:

By way of introduction, I was a Delegate to the 1980 White House Conference on Small Business.

The 50¢ per call for interstate directory assistance has made a dramatic impact on our business!

Our service is essential to over 500 clients. As such, we make over 2500 calls each month.

NW Bell charges 50¢ per call. This represents over $16,000 per year to our small Company! Surely our high volume use of toll charges justifies more free information calls than that of one household phone? Also, our approximately $100,000 per year in telephone calls stimulates more calls. For every call we pay for, there are ten or more calls placed collect. This is One Million Dollars in toll charges. Then, there are the approximately 500 incoming calls we receive each day. If they average only $2.00 per call, this represents an additional $240,000 in toll charges.

We believe this information charge to high volume users, such as us, is counter-productive. For the want of $16,000 in information charges per year, AT&T Communications will, in time, probably lose $500,000 per year in ungenerated toll charges. We can't afford to pay them some 20% of our margins for a service that is optional. There are many more agencies just like ours. This has to have an adverse impact on consumer rates.

For us, this charge adds over 30% to our total telephone bill! Whatever happened to the savings we were suppose to realize from deregulation?

Sincerely,

Thomas E. Aman, IFCC, C.E.O.
ACS, INC.

jms
enc.
c American Collectors Association
  Credit Service Division, Associated Credit Bureaus
  Coaliton Of Higher Education Assistance Organizations
  AT&T
  NW Bell Telephone

Member Associated Credit Bureaus, Inc.
Collection Service Division

American Collectors Association, Inc.
4040 W. 70th St. • Box 35106 • Minneapolis, MN 55435 • 612-926-6547

March 30, 1984

Ms. Gail Goeman, Treasurer
ACS, Inc.
P. O. Box 730
Aberdeen, SD 57401

Dear Ms. Goeman:

I want to thank you for sending me copies of Mr. Aman's correspondence on the long distance directory assistance charge issue. I have taken over Tom Cooper's responsibilities as Director of Public Affairs for the Association, and will be using this information in preparing comments that we will submit to the FCC on the 75¢ charge next month.

You will be interested to know that the directory assistance charge will not go into effect until at least June 13, according to our latest information. Also, the actual charge will be less than 75¢.

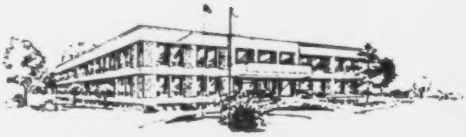
Thanks again for the information, and I'm looking forward to serving you.

Sincerely yours,

Carleton W. Fish

Carleton W. Fish
Director of Public Affairs

CWF:mlm



AMAN COLLECTION SERVICE, INC.
1 SO 1ST STREET P O BOX 730
ABERDEEN, SOUTH DAKOTA 57401
PHONE (605) 229-0100

March 26, 1984

Mr. Tom McGrath, Account Executive
Mr. Dave Olson, Communications Systems Consultant
A T & T Communications
625 Minnesota, Suite 103
Sioux Falls, SD 57104

Dear Mr. McGrath and Mr. Olson:

Attached are copies of letters Mr. Aman wrote to the American Collectors Association and our representatives in Congress.

At the time Mr. Aman and I spoke to you regarding the increased charge for information calls, I was under the impression we were making 500 information calls a month. I was mistaken. This represents only South Dakota information calls.

Instead of an additional estimated $1,000.00 per year increase in our cost of doing business, the proposed 75¢ charge for information services would cost us nearly $100.00 per day, or $24,000.00 per year!

As you can see, the more we learn of the impact of this proposal, the worse it gets! Please convey my concerns to Northwestern Bell Telephone in Aberdeen and Sioux Falls as well as A T & T Communications.

Our industry is unique. We generate millions of dollars in toll charges for the telephone company monthly. Our approximately $100,000.00 per year telephone bill is merely the tip of the iceberg of what we stimulate in toll charges. For every call we make and pay for, there are ten or more calls that are placed collect and paid for by the consumer. Here alone, you have a million dollars in charges. Then, there are the approximately 500 calls a day, mostly long distance, coming into our office. If they average only $2.00 per call, this represents an additional $300,000.00 in toll charges.

I believe this information charge to high volume users, such as us, would be counter-productive. For the want of $24,000.00 in information charges per year, A T & T Communications will probably lose $240,000.00 in ungenerated toll charges.

Member Associated Credit Bureaus, Inc
Collection Service Division

Another thing that this would do, is to add over 30% to our total telephone bill, as it now stands. Whatever happened to the savings we were suppose to realize from deregulation?

Sincerely,

Gail Goeman, Treasurer
ACS, INC.

jms
enc.
c Senator Pressler
  Senator Abdnor
  Representative Daschle
  Tom Cooper, Director of Public Affairs, ACA

AMAN COLLECTION SERVICE, INC.
1 SO 1ST STREET P O BOX 730
ABERDEEN, SOUTH DAKOTA 57401
PHONE (605) 229-0100

January 26, 1984

Mr. Tom Cooper, Director of Public Affairs
American Collectors Association
Post Office Box 35106
Minneapolis, MN 55435

Re: Charges for Information Services

Dear Tom:

We made a gross error in our calculations relative to this matter. Instead of an estimated $1,000.00 a year, this 75¢ charge would add nearly $100.00 per day, or $24,000.00 per year, to our present charges!

We presently make 125 information calls per day.

The other figures I gave you included only South Dakota, and we figured them at 20¢ (the South Dakota rate), not 75¢! There just has to be some relief!

Thanks for all your good work on our behalf,

Thomas E. Aman, IFCC, President
ACS, INC.

jms

c Burke Tracey, Executive Director, COHEAO
Ron Unger, DCS

Member Associated Credit Bureaus, Inc
Collection Service Division

AMAN COLLECTION SERVICE, INC.
1 SO. 1ST STREET P.O. BOX 730
ABERDEEN, SOUTH DAKOTA 57401
PHONE (605) 229-0100

January 17, 1984

Senator Larry Pressler
411 Russell Senate Office Building
Washington, DC 20510

RE: 75¢ charge for long distance directory assistance

Dear Senator Pressler:

We oppose this charge.

Already, our telephone bill is more than $1,200.00 per year higher due to South Dakota Bell's imposition of a 20¢ charge per call last year. This increase would add an additional ~~$4,000.00~~ to ~~$5,000.00~~ to our bill!
$24,000.00

We don't understand how both residential and business lines get three free calls (in South Dakota) when one generates, perhaps, $20.00 per month in long distance toll charges versus around $1,000.00 per month for our business.

There has to be more credit given. Perhaps the free credit for information charges ought to be based on a percentage of toll charges generated per line.

As an example, three free calls at 20¢ (or 60¢) amounts to a 3% credit on a $20.00 monthly bill. This 3% should then be applied uniformly to businesses, as well as residences.

This would be uniform and fair, and our industry could most likely live with it.

This problem may not seem important to AT & T Communications. But, it ought to be for the Federal government and our delicately balanced economy, which we believe our services vitally offset!

Sincerely,

Thomas E. Aman, IFCC, President
ACS, INC.

jms
enc.
c Tom Cooper, American Collectors Association
  Northwestern Bell Telephone, Aberdeen and Sioux Falls
  AT & T Communications
  Burke Tracey, Coalition of Higher Education Assistance Organizations

Member Associated Credit Bureaus, Inc
Collection Service Division

What happened to 25¢?
Says it's 50¢ in the end.

United States Senate
WASHINGTON, D.C. 20510

March 12, 1984

Mr. Thomas E. Aman, Pres.
Aman Collection Service, Inc.
P. O. Box 730
Aberdeen, South Dakota 57401

Dear Tom:

Attached for your information is a copy of the response I received from the Federal Communications Commission regarding your concerns about the proposed charges for long-distance information telephone calls.

Enclosed is a letter from Jack Smith, who heads up the common carrier operations. Jack explains the FCC's February decision to place a one-year cap of 25 cents on the service call element of this charge. Additional information is provided on the access charge decision and other ATCOM tariff requests which may be of interest to you.

I hope this material answers some of your questions, Tom. Please stay in touch and I hope we will have a chance to visit soon.

Sincerely,

Larry

Larry Pressler
United States Senator

LP/mbc
Enclosure

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO:

FEB 2 . 1984

61230
TC-84-10,899
840464

Honorable Larry Pressler
United States Senate
Washington, D. C. 20510

Dear Senator Pressler:

Chairman Fowler has asked us to respond to your February 7, 1984, letter enclosing correspondence from Mr. Thomas E. Aman, IFCC, President of Aman Collection Service, Inc., in Aberdeen, South Dakota. Mr. Aman's correspondence concerns the 75 cent charge for interstate directory assistance proposed by AT&T Communications (ATCOM) in its recent tariff filings.

As background, on October 3, 1983, ATCOM filed Tariff F.C.C. Nos. 1 through 8 with this Commission. The Commisson's initial review of these filings found many substantial and controversial issues which presented numerous questions of lawfulness, notably in areas where the Commission's access charge orders are silent or provide only general guidelines. For this reason, on October 18, 1983, the Commission suspended the access charge and exchange carrier tariffs that were scheduled to become effective January 1, 1984, and began an investigation of all aspects of the rates and regulations proposed by ATCOM and local telephone companies for services to customers and carriers (Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145).

On February 17, 1984, the Commission released an order in Phase I of CC Docket No. 83-1145, with respect to the exchange carrier tariffs. The order recognizes that a high proportion of long distance information calls are made by large businesses that have taken advantage of the free provision of directory assistance. Other users, including local residential customers, should not be required to bear the burden of such costs. Assigning an accurate rate to recover the costs of providing these calls would also encourage efficiency in the use of the service. Thus, a cost-based rate for these calls should be both more equitable and more efficient.

However, the cost basis for the directory assistance rates set forth in the exchange carrier tariffs is very doubtful. For that reason, in its February 17, 1984, order the Commission prescribed an interim one-year cap of 25 cents for the directory assistance service call element for all carriers whose charges are on a per-call basis. The exchange carriers had proposed rates averaging around 64 cents, the figure ATCOM used as the basis for its proposed 75 cent charge for long distance information service. Although we do not at this time have before us a revised proposal from ATCOM reflecting our February 17, 1984, decision, we would expect that any directory assistance charge based on the 25 cent figure would be significantly less than the 75 cent charge ATCOM originally proposed. Enclosed are news releases describing Commission actions in this proceeding. Copies of Mr. Aman's correspondence and your letter on his behalf have been associated with the Commission's public file in this proceeding.

We trust the foregoing and enclosed are helpful in responding to Mr. Aman. If we may be of further assistance, please let us know. The enclosure to your letter is returned for your convenience.

Sincerely yours,

JD Smith
Jack D. Smith
Chief, Common Carrier Bureau

Enclosures

Appendix K.—Local Measured Service in Indiana

THE ARNOLD GROUP

STATUS REPORT ON LMS IN INDIANA

Since the two year state legislative ban on local measured service (LMS) expired April 1, 1984, Indiana telephone companies are preparing for activities both during the 1985 session of the Indiana General Assembly and at the Indiana Public Service Commission (PSC). It is reported that telephone representatives and lobbyists are making the rounds visiting state legislative candidates to present their side of the LMS story.

Previously, the only dual-billing LMS test in Indiana had been done by General Telephone Company of Indiana (GTE) in its Chesterton service area. The Seymour-based Continental Telephone Company began a similar comparative billing program in Huntingburg (Dubois County) on June 19th. The Continental LMS experiment is proposed to run during the months of June, July and August before the company starts a second dual billing program in Corydon (Harrison County) in November. (Please note that Corydon is the home of Senate Minority Leader Frank O'Bannon. Frank is also the brother of Robert O'Bannon, Executive VIce President of the Indiana Telephone Association.) Harrison County is one of the few counties in the state with county-wide extended area service (EAS). EAS is a related telephone issue of interest to telephone users.

Indiana Bell Telephone Company is currently running calling patterns on 70,000 lines and collecting additional demographic data. Bell expects to correlate such demographic data with the calling patterns as a precursor to LMS dual billing tests in their service territory.

GTE is planning LMS comparative billings in several Hoosier communities before the end of the year. Plans are underway for an LMS test in most of the exchanges in Richmond. Richmond will be the largest city to-date for such LMS tests. Other comparative billing programs are planned for Valparaiso, again in Chesterton with more demographic data, and finally, in Farmland (Randolph County) which is located just east of Muncie.

Although no specifics are available, United Telephone Company plans LMS comparative billings during the fourth quarter of this year.

Apparently, interest in LMS is not restricted to the investor-owned telephone companies. Indications are that the telephone cooperative serving Cloverdale in Clay County has expressed interest in LMS billing. This is the state's largest telephone cooperative with approximately 3,000 lines and 5 or 6 exchanges.

More information will be available later this summer as the results of the Huntingburg study become available and plans for other LMS comparative billing programs are confirmed. Experimental LMS tariffs and other details concerning these tests are expected later this summer or early fall.

Laura A. Arnold
July 23, 1984

825 W. Berry St. • Fort Wayne, IN 46804 • (219) 424-3432

THE ARNOLD GROUP

DETAILS OF LMS PLANS UNFOLD

More detailed information concerning the plans and activities of Indiana telephone companies has been obtained to supplement the overview provided by Bob O'Bannon with the Indiana Telephone Association (ITA) as reported in TAG report entitled "Status Report on LMS in Indiana", 7/23/84.

Merle Buck, Vice-president and Director of Public Affairs and Administration for Continental Telephone Company stated that their current pilot project in Huntingburg will be a six month rather than a three month study. Continental already offers local measured measured service in many other states, however, the purposes of their Indiana "strictly" pilot project is 1) to test Continental's ability to educate their customers about LMS, and 2) to get their customers reaction to this billing system. An analysis of the six months of dual billings will then be made in late December 1984. Buck explained that some of the questions Continental would like answered are: Is there conservation of telephone service by customers? How on target is the company with its proposed LMS tariffs?

Buck emphasized that if Continental does propose LMS they will develop tariffs which will result in a revenue wash, i.e. no overall increase in the company's revenues. Buck suggests that a second dual billing in Corydon is a possibility but is very tenative at this point. Continental wants to get further into the Huntingburg pilot project before committing to undertake Corydon. Buck also seems concerned that customer repression in calling could be as high as 19% as it was in the GTE Illinois experiment.

Buck believes that the community of Huntingburg is pleased that they were selected for such a pilot project by Continental. He further stated that they worked closely with business groups and obtained permission from business leaders before embarking on the project. The Arnold Group (TAG) is scheduled to meet in mid-August with Buck to review Continental's sample billings and to discuss the company's future plans for LMS in greater detail.

Lelia Smith, Manager of Tariffs and Costs with Indiana Bell Telephone Company provided more details about her company's current LMS studies. In June, Indiana Bell began conducting state-wide studies to determine calling patterns on 70,000 lines. Bell will then correlate that information both with demographic data from the 1980 Census and additional surveys or questionaires from individual customers. She indicates that such data will be used "for a later filing", especially to specify how certain groups of customers will be impacted by LMS.

-more-

825 W. Berry St. • Fort Wayne, IN 46804 • (219) 424-3432

At this point, Indian Bell does not intend to develop a proposed tariff until they have collected adequate data concerning calling patterns. Smith also recited that Indiana Bell is looking for a revenue wash with no increase in rates for customers. She reiterated numerous times that Indiana Bell wants to be very careful before they propose an LMS tariff or rate structure. The calling pattern studies are expected to run for several month before any data becomes available. After the data has been analyzed then Indian Bell will begin the task of developing a rate schedule. Next the company would consider a dual billing project which would not be until after the first of the year. Since Indiana Bell was burnt during their 1980 LMS rate filing, it is clear that the company's objectives are to have the best possible data to present before issuing a tariff.

Smith indicated that Indiana Bell is not committed to a particular LMS rate plan (and implicitly indicated that they were committed to LMS) but they are in concert with the position of ITA in their committment to a four element rate structure. They don't have a specific plan but the message was they desperately want a viable plan.

Laura A. Arnold
July 27, 1984

ACT

Association of Concerned
Telephone Users Newsletter
Fall 1984 Vol. 1 No. 1

BUSINESSES RALLY TO FIGHT LMS

Indiana businesses, alarmed by proposed increases in their telephone costs as a result of Local Measured Service (LMS), are preparing to fight the proposal in the 1985 General Assembly.

To the casual observer it would appear that the telephone utilities had given up on the notion of measuring the number, the distance, the length and time of day of local telephone calls, since all appears quiet. Nothing could be further from the truth. The rumor heard in the state capitol hallways was that the telephone utility lobbyists promised the leadership of the State Legislature, that, if the state legislative ban on LMS was not imposed for another year, the telephone industry would agree not to file for such tariffs with the Indiana Public Service Commission (PSC) in calandar year 1984. Meanwhile, the telephone industry is quietly working behind the scenes collecting supporting data for that first filing at the PSC.

Rep. Gordon Harper (R-Indianapolis), Chairman of the House Public Policy Committee, is holding interim committee hearings on a variety of energy and utility issues. Harper plans to hear from consumers and the telephone industry at a hearing to be held:

DATE: Thursday, October 25, 1984
TIME: 10:00 a.m.
PLACE: State House, Indianapolis

Harper plans to hear from both sides regarding several telecommunications issues including LMS and intrastate access charges.

The Association of Concerned Telephone Users (ACT) is working to coordinate the testimony of business and institutional telephone consumers to oppose LMS. The Citizens Action Coalition (CAC) is obtaining residential consumer testimony.

A BRIEF HISTORY OF LMS PROPOSALS

It may help telephone consumers to understand the history of LMS in Indiana.

In May of 1980, Indiana Bell Telephone filed a request with the PSC for mandatory LMS tariffs for all business customers. Immediately, an ad hoc group of business customers rallied to scrutinize and to oppose this new telephone pricing concept. This was the beginning of what is now ACT.

After several field hearings were held on this general rate case, filed by Indiana Bell in New Albany and South Bend, a motion was granted by the PSC to suspend the LMS portion of Bell's rate case due to a lack of evidence presented to the PSC.

Indiana Bell's original filing did not contain adequate accounting or cost studies to justify its proposed rates.

In November of 1981, Larry Wallace, at that time Chairman of the PSC, initiated a generic proceeding at the PSC to begin to collect the necessary data to facilitate a later filing by one of the telephone companies to request an LMS tariff. (continued on page 3)

Rep. Gordon Harper, (R) Indianapolis, chairs a hearing on Utility issues.

310 N. Alabama St. • Indianapolis, IN 46204 • (317) 635-5659

A MESSAGE FROM ACT'S PRESIDENT

(Editor's note: L. Deane Shepard is the President of ACT and is also a past President of the Indiana Association of Personnel Consultants. Mr. Shepard is the President of Century Personnel of Indianapolis.)

Greetings. I want to bring you up-to-date on the activities of ACT and to awaken you from your lethargy.

ACT's mission to protect the interests of business telephone ratepayers has never been more important. ACT is organizing, researching, and raising money for the upcoming session of the Indiana General Assembly. It is our goal to develop a strong coalition of business interests who believe that there is insufficient evidence to support LMS in Indiana.

LMS sounds like a disease. We believe it will be fatal to many businesses that depend on telephone contact. We believe that LMS is merely a marketing scheme dreamed up by the telephone industry as a new gravy maker.

It is a noble attempt, I must say. It is a profit-maker that all of us in the unregulated and unprotected free enterprise system would love to have: To take a product or service with inelastic consumer demand such as the telephone, and manipulate its price so that profit on the magnitude of hundreds of percents are collected each and every time you and I make a local telephone call.

They are clever, I must admit. They have found a convincing slogan: "Pay for what you use." The problem is that in the telecommunications field your usage of the network may or may not be directly related to the proposed LMS tariffs proposed by the phone companies. However, under duress, the telephone company admits that 75% or more of the cost of local exchange service is a fixed cost, or, to use telephone buzz words, non-traffic sensitive (NTS).

That leaves about 25% of the costs of local phone services as variable or traffic sensitive costs. Unfortunately, that's not what the LMS tariffs proposed to date reflect.

As business people, we all believe that prices should reflect costs. The telephone industry has never priced its service that way. They use a subjective method called "value of service" to price local exchange. They reason that if you use your telephone to generate revenue, the service is more valuable than residential service. That's why a business line has always been priced more than a residential line.

The profitability of phone intensive businesses like mine in the personnel industry, real estate brokers, insurance agents, car dealers, collection agencies and others are threatened by the phone companies newest scheme --LMS--in which heavy phone users will subsidize low volume users and in the meantime create untold new profits for the telephone industry.

ACT has engaged the services of the Arnold Group, headed by Laura A. Arnold, formerly an aide to Mayor Win Moses, Jr., a noted consumer advocate. She has a strong background of energy and utility regulatory issue advocacy.

I urge concerned business people to join ACT and to contribute to our legislative and lobbying efforts to stop LMS.

(continued from page 1). . .

Because of public statements made at that time by Chairman Wallace, telephone consumers began to worry that a "kangeroo court" atmosphere would be present during this generic proceeding. Furthermore, consumers were concerned that all the social and economic ramifications of such a drastic change in the pricing system for local exchange service would not be adequately explored in the complex, legalistic and expensive state regulatory arena.

Consumers rallied to pass H.B. 1400 during the 1982 session of the Indiana General Assembly to: 1) impose a state legislative ban on the PSC from implementing LMS rates in Indiana until April 30, 1984; and 2) to create an LMS Legislative Study Commission.

In the meantime, the PSC created an Advisory Task Force to their staff to assist in collecting information and data regarding LMS. ACT hired Peter Fisher with Economics and Technology, Inc. of Boston. Fisher was at that time an associate of the renowned Dr. Lee Selwyn, a nationally respected telecommunications expert.

The cities of Fort Wayne and Indianapolis retained Dr. Warren Shearer, former chairman of the Economics Department of Wabash College. Other members of the group included representatives from senior citizens, universities, CAC and telephone companies themselves.

After it was apparent that there was strong popular support for a ban on LMS, the telephone industry quickly submitted to the idea of a temporary ban and the creation of a study commission. As it turned out, the telephone industry had little to worry about since a utility sympathizer, Senator Jack Guy (R-Monticello) was appointed Chairman of the study commission.

The Vice Chairman of the Commission was Rep. Nelson Becker (R-Logansport). Both legislators are not seeking re-election and Becker is rumored to begin lobbying for Public Service Company of Indiana (PSI).

Part of the telephone utility industry's rationale for LMS embraces the imposition of access charges both inter- and intra-state. Consumer advocates contend, however, that there are alternative solutions to the problem.

The 1984 Legislative Session adjourned with no continuation of the state legislative ban which expired this spring. Consumers, and the telephone industry, are now preparing for the battle during the coming year, both during the 1985 Session of the Indiana General Assembly and at the PSC. In the meantime, Governor Orr appointed a Committee on Indiana's Utility Future to prepare recommendations and legislative proposals. The committee is expected to have legislative recommendations by December of 1984.

ACT NOW!

All business and institutional consumers concerned about the impact of LMS on their telephone bills should express their opinions to the

House Public Policy Committee

Leadership of the Indiana General Assembly

Governor Robert Orr

Members of the Governor's Committee on Indiana's Utility Future

as well as their own State Representatives and Senators.

ACT urges you to take time now to write, call and/or visit these individuals. A list of the names, addresses and phone numbers of these individuals can be found in the insert to this newsletter along with a worksheet to help you calculate the impact LMS tariffs may have on your local phone bill.

ACT also urges to you to join our legislative campaign by making a contribution and signing up for our legislative "HOTLINE". For more information on how you, your business or association can help, please call: (317) 635-5659.

ACT
310 N. Alabama Street
Indianapolis, IN 46204

ACT NEEDS YOUR HELP NOW!

Fill out the information below and mail it to:

ACT
310 N. Alabama Street
Indianapolis, IN 46204

NAME ______________________________
Business or Association

ADDRESS ______________________________

CITY ____________________ STATE __________ ZIPCODE____________

CONTACT PERSON:__________________________ TITLE:________________________

BUSINESS PHONE:(_____)__________ HOME PHONE:(______)__________

ACT NEEDS YOUR CONTRIBUTION NOW!

Please find enclosed my contribution to ACT to fight LMS during the 1985 session of the Indiana General Assembly. (Businesses are urged to send a contribution equivalent to one month's local telephone bill excluding long distance charges.)

☐ $1,000 ☐ $500 ☐ $250

☐ $100 ☐ $50 ☐ $25

☐ Yes, I want to be a part of ACT's legislative "HOTLINE"

☐ Yes, I am willing to meet with my elected state representatives.

☐ My business group or association is interested in supporting ACT's legislative efforts. Please call on us to help.

☐ My group is interested in additional copies of this newsletter and other information concerning LMS to distribute at our next meeting.

☐ We are interested in having a speaker talk to our group about LMS.

LOCAL MEASURED SERVICE WORKSHEET

Thus far in the State of Indiana, three different LMS tariffs have been discussed. Consumers have never been certain whether the tariffs described would eventually be the ones proposed for adoption (except for the Indiana Bell rates). These rates and the worksheet are an attempt to allow businesses to try to determine a comparison between their current telephone costs and their projected costs if LMS is adopted. We suggest:

1. A business keep a log of its own local telephone calls, for a specified period, ie., a month or two weeks.
2. Record all outgoing phone calls, time of day, length and the approximate distance.
3. Apply the appropriate tariff to determine the impact of proposed LMS tariffs on their local phone bills.

TARIFFS:
A. Small community served by Continental Telephone Co.(CONTEL)

B. Small Community served by General Telephone (GTE)

C. Community served by Indiana Bell

* "Non-Peak Hours" -charges are 50% of Peak hour charges.

TARIFF:	A.	B.	C.
Monthly Charge (Business Line)	$13.00	$28.00	$25.00 includes $5.00 allowance toward LMS charges
(Residential line)	$6.50	$5.00	$- - -
"Peak Hours"	7 A.M. to 11 PM	8 A.M. to 9 P.M.	9 A.M. to 9 P.M.
Charge per completed call			
"Local"*	$0.03	$0.03	
"Zone 1"*	$0.04	$0.06	
"Zone 2"*	$0.07	$0.12	

Distance Charge:	A. First Min.	A. Each Add'l	B. First Min.	B. Each Add'l	C. First Min.	C. Each Add'l
"Local"*	$0.01	$0.01	$0.008	$0.008	$0.05	$0.01
"Zone 1"*	$0.02	$0.02	$0.016	$0.016	$0.07	$0.02
"Zone 2"*	$0.05	$0.05	$0.032	$0.032	$0.09	$0.03

*"Zones"	A.	B.	C.
Local	Home Exch. (Huntingburg)	Home Exch. (Chesterton)	1-8 Miles
Zone 1	Jasper, St. Anthony, Holland, Ferdinand. 0-8 Mi.	Portage, Valparaiso	9-16 Miles
Zone 2	Birdseye, Dubois, 9-16 Mi.	Michigan City	Over 16 Mi.

	TIME PERIOD				PEAK USAGE RATES		USAGE CHARGES
	"PEAK" CALLS		"NON-PEAK"* CALLS		(per minute)		
Distance Band	Calls (Initial)	Add'l Minutes	Calls (Initial)	Add'l Minutes	Initial	Add'l	
Local	____	____	____	____	____	____	____
Zone 1	____	____	____	____	____	____	____
Zone 2	____	____	____	____	____	____	____

TOTAL USAGE CHARGES. . . . . ____

Add BASIC MONTHLY CHARGE. . . . . ____

Less Allowance if any . . . . (-) ____

NET USAGE CHARGE . . . . ____

These people hold the fate of your business in their hands

WRITE

Governor Robert Orr
State House
Indianapolis, IN 46204
(317) 232-4567

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O: (812) 379-9509
H: (812) 342-3984

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Corydon, IN 47112
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Michigan City, IN 46360
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APPENDIX L.—TOUCHE ROSS & CO. STUDY OF BYPASS IN IOWA

Touche Ross & Co.

NATURE AND EXTENT OF LOCAL EXCHANGE BYPASS

NORTHWESTERN BELL TELEPHONE COMPANY

STATE OF IOWA

EXECUTIVE SUMMARY

BACKGROUND

Touche Ross & Co. was engaged by Northwestern Bell Telephone Company (the Company) to conduct a study of the nature and extent of bypass of the local exchange in the state of Iowa. Additionally, the potential revenue loss to the Company due to telephone customers' using alternative communication transmission systems (e.g. microwave, satellite, fiber optics, or atmosphere optical technology) to replace the use of the Company's facilities for the origination and/or termination of telephone calls was calculated using the study results.

The bypass study was based on telephone and on-site interviews with the 100 largest users of telecommunication services in Iowa as defined by the Company's billing records (including MTS, WATS, and private line revenues). The survey effort focused on large users of telecommunications services because this is a high risk group for Northwestern Bell since revenues tend to be disproportionately concentrated in a small number of customers as well as concentrated geographically in a small number of wire centers. For example, Company billing records indicate that 8% of the business customers in Iowa generate approximately 57% of the Company's total MTS revenues. Of the 100 customers contacted, 72 consented to interviews on the nature and extent of their bypass activities while the remainder of the large customers either refused to participate or were unavailable during the time frame of the study. Additionally, publicly available information sources, such as the FCC license files for microwave and receive/transmit satellite earth stations, were reviewed to corroborate the information of bypass systems provided by respondents.

STUDY RESULTS

The major findings from the completed interviews with 72 of the largest customers of Northwestern Bell in Iowa are briefly outlined below:

- Bypass of Northwestern Bell's plant in Iowa is a current reality; 11% of the customers surveyed already operate bypass systems in Iowa.

- Northwestern Bell could have billed an estimated $1.4 million in additional revenue in 1984 if its largest Iowa customers (net of interexchange carriers and resellers) had not engaged in bypass.

- The $1.4 million loss in billed revenue will increase over the next several years as new bypass systems are deployed and additional traffic is diverted to bypass systems. The revenue loss will increase to an estimated $3.0 million by 1987.

- An estimated $3.6 million in billed revenue could be lost to bypass by 1987 if all the respondents who are currently undecided about bypass choose to deploy bypass systems in Iowa.

- Direct interconnection of Northwestern Bell customers to interexchange carriers may become a major future threat to revenues:
    - 86% of the respondents expressed a willingness to consider direct interconnection to AT&T. Additionally, 75% of the respondents indicated they were cost motivated.
    - 70% of the respondents said they would be willing to interconnect with an interexchange carrier other than AT&T (i.e., MCI, GTE, Sprint). Additionally, 55% of the respondents indicated they were cost motivated.
    - 39% of the respondents indicated that they have already been approached by an interexchange carrier offering direct interconnection without use of a local telephone company's plant.
- Up to $10.8 million in billed revenue may also be at risk from Iowa customers who have indicated a willingness to engage in a direct interconnection arrangement with an interexchange carrier and who have already been approached by an interexchange carrier about implementing a direct interconnection facility.
- The amount of local traffic diverted from the local plant will increase as new technologies (microwave, satellite systems, etc.) are implemented by large customers. The customer interviews indicate that:
    - All current bypassers will continue to bypass in Iowa.
    - 63% of the customers currently bypassing in Iowa have plans to expand the use of bypass systems in Iowa.
    - Two of the largest customers which do not currently bypass already plan to install bypass systems in Iowa in the near future.
- Existing and planned bypass systems have been deployed across the state of Iowa in cities such as Des Moines, Cedar Rapids, and Ames.
- Bypass is accelerating in the state of Iowa; 45% of the operational bypass systems in the state have been built in the last four years.
- Respondents indicated that the traffic on existing and planned bypass systems in Iowa primarily consists of intrastate traffic.
- Bypass decisions among a number of large Iowa customers have been motivated by the desire to reduce telecommunications costs.
    - 25% of the customers who already bypass in Iowa built bypass systems to reduce costs.
    - Cost reduction is also the primary motivation for the implementation of any additional bypass systems in the near future.
- Revenue lost to bypass is cumulative and for the most part probably irretrievable; 63% of the large customers who currently bypass in Iowa said they would not abandon bypass facilities to return to Northwestern Bell.

RESPONSES TO BYPASS

Northwestern Bell and the Iowa Commerce Commission (the Commission) must face the reality of an increasingly competitive marketplace. The results of the bypass study for the state of Iowa indicate that a combination of responses from both regulatory commissions and telephone companies are required to effectively deal with the bypass issue. Regulators should consider the implementation of a variety of proposals which would enhance the ability of local telephone companies, such as Northwestern Bell, to more effectively compete with bypass technology on the basis of price:

- Implement service termination liabilities so that a large user pays for unamortized plant which would be stranded when the user diverted traffic to bypass systems.
- Establish flexible contractual arrangements instead of tariffs under conditions when the alternative is the loss of a large user's business.
- Pricing services using new technology at the incremental cost of that technology rather than average embedded cost.
- Capping the amount of nontraffic sensitive costs being recovered from a large user to ensure recovery of all costs caused by that user but to avoid unlimited exposure to the user for costs caused by other users.
- De-averaging prices for services in highly competitive zones or along highly competitive routes.
- Allowing a telephone company some flexibility in pricing competitive services by permitting discretionary price changes between commission approved maximum and minimum prices.
- Reducing the time before new prices become effective in competitive offerings.
- Imposing the same degree of regulation on all competitors.
- Total deregulation of specific services for which a commission determines that a competitive market exists (for example, the Commission's recent decision to deregulate Centrex services).

Additionally, a local telephone company such as Northwestern Bell must address bypass in a competitive marketplace. The Company no longer has an absolute monopoly on the origination and termination of traffic in its service area. Northwestern Bell must compete in terms of price and service to retain its customer basis.

CONCLUSION

Northwestern Bell Telephone Company and the commissions which regulate it have an opportunity to take specific actions to enable the Company to compete more effectively. If the Company is not provided the opportunity to price its services competitively with the bypass option, then its customers and the marketplace will receive price signals which will encourage bypass.

Furthermore, if the charges levied on interexchange carriers for access in Iowa are excessive from an interexchange carrier's point of view, then carriers will also have an incentive to bypass the local telephone company and interconnect from their point-of-presence directly to a large customer's premises. The survey results already indicate that customers would be receptive to this type of arrangement.

Either form of bypass (customer private systems or direct interconnection by interexchange carriers) could result in the significant erosion of the revenue stream of the Company.

APPENDIX M.—ADDITIONAL INFORMATION RECEIVED FROM R.M. HUNT, ASSISTANT VICE PRESIDENT, SOUTH CENTRAL BELL

South Central Bell
Green Hills Office Building
Nashville, Tennessee 37215
Phone (615) 298-7471

R. M. Hunt
Assistant Vice President

OCT 30 1984

October 26, 1984

The Honorable Ron Wyden
U. S. House of Representatives
1406 Longworth House Ofc. Bldg.
Washington, D. C. 20515

Dear Congressman Wyden:

During your Sub-Committee hearing held in Nashville, Tennessee on October 19, testimony was presented by Commissioner Keith Bissell, Chairman of the Tennessee Public Service Commission, regarding efforts that are being made in South Central Bell to simplify and reduce the number of pages included in monthly telephone bills. As you are aware, divestiture of the Bell System introduced requirements for certain changes in our billing procedures in order that proper identification could be given to billing for charges payable to the various entities providing telecommunication services. Our bills presently cover charges due South Central Bell, South Central Bell Advanced Systems, AT&T Information Systems and AT&T Communications. In order to meet contractual requirements as well as those imposed by the Modified Final Judgement, additional pages and disclaimer statements became necessary. As an example, prior to divestiture the average customer's bill in South Central Bell contained 3.7 pages. Following divestiture the average became 7 pages.

Our personnel as well as members of the Tennessee Public Service Commission have received numerous complaints and inquiries from customers expressing confusion as well as objecting to the number of pages in the bill. In our effort to improve and simplify our bill, a review team was formed in South Central Bell Headquarters to study, make recommendations and changes, etc. Meetings have been held with Commissioner Bissell, his staff, and others to solicit their input on possible changes that would make our bills more understandable and less repetitious.

In August, we introduced a cover page and summary page (see Attachment 1 & 2). Even though this was an addition to the number of pages, it answered two of the most frequent questions and complaints raised by our customers, i.e., "I can't determine how much I owe without looking at several pages of the bill", and "I'm confused as to how much I owe SCB, AT&T, etc."

Since the introduction of the summary pages, we have experienced a significant drop in the number of inquiries received in our business offices and feel this change has been very beneficial. Also, I should point out (Attachment 1A) which is the first page of our bill will become the return payment statement our customers will include with their payment beginning the first quarter of 1985. This will eliminate the need for the present computer payment card now included with our bills.

The review team referred to earlier, has and will continue to meet regularly examining all possibilities for further improvement and simplification of our bill. An example is the most recent version of a possible bill format which we feel will meet requirements, and at the same time eliminate unnecessary entries and reduce the number of pages presently being used. To best illustrate these changes, I am enclosing Attachment 3 and Attachment 4. Attachment 3 is an example of a bill using the existing format. Attachment 4 incorporates the proposed changes on the same account. A comparison of the two will illustrate the proposed changes now being considered.

I should point out this proposed format has not yet been approved or adopted, as further study is being given to make certain it does meet all contractual requirements and is the most understandable product we can offer. Also, since conditions vary among Bell Operating Companies and in the various Regions, this format is being considered only within South Central Bell at this time. Should the proposed bill format be adopted in South Central Bell, we anticipate customer statements incorporating these changes during mid 1985.

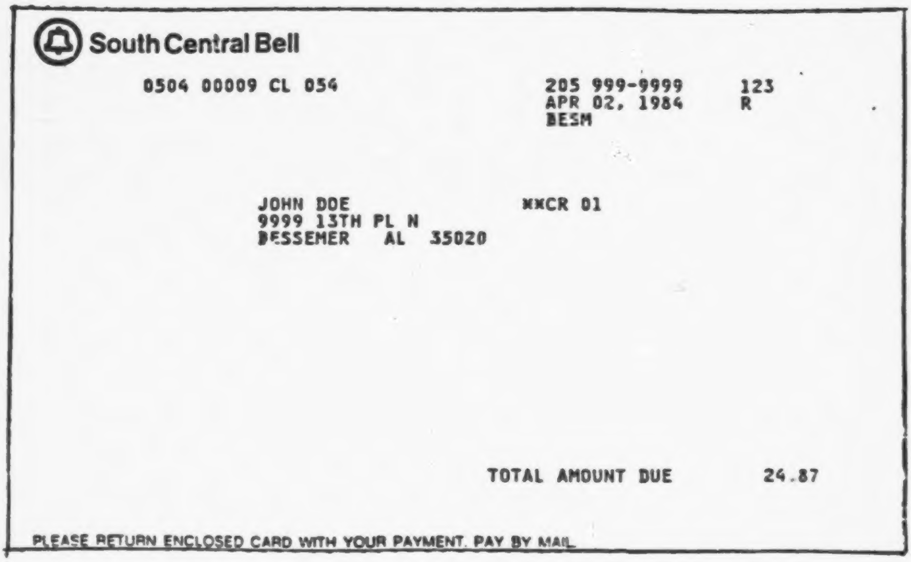
I hope this requested information will be useful to you and your Committee members. Should you desire additional information, please give me a call.

Sincerely,

Attachments

Attachment 1

COVER PAGE



South Central Bell

0504 00009 CL 054

205 999-9999 123
APR 02, 1984 R
BESM

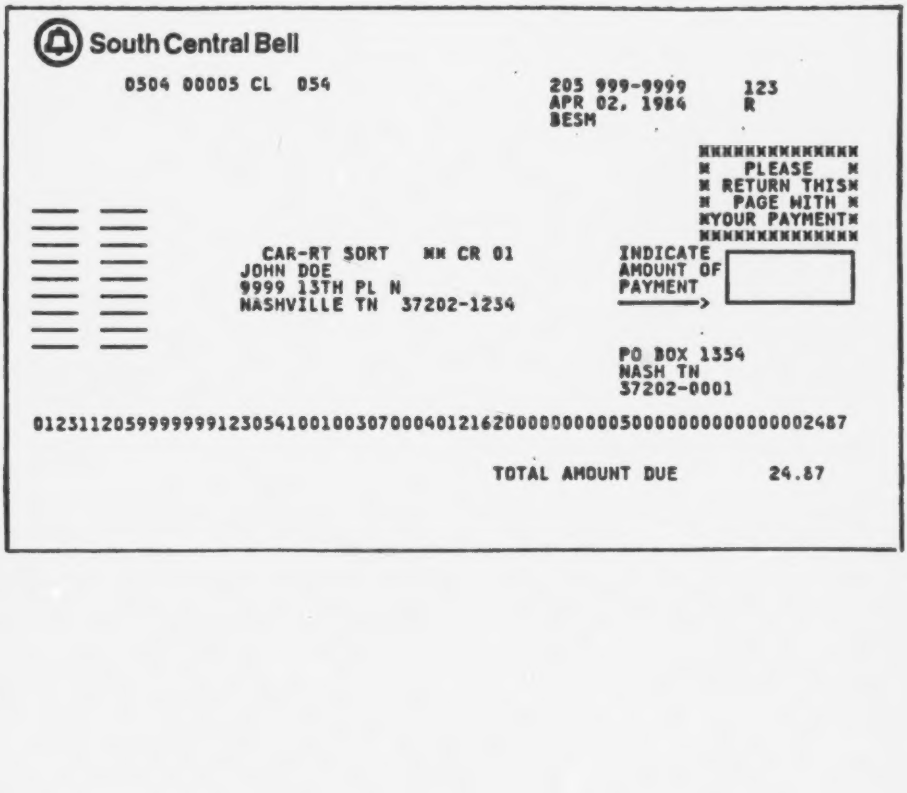
JOHN DOE
9999 13TH PL N
BESSEMER AL 35020

XXCR 01

TOTAL AMOUNT DUE 24.87

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL

Attachment 1A



South Central Bell

0504 00005 CL 054

205 999-9999   123
APR 02, 1984   R
BESM

****
*   PLEASE   *
* RETURN THIS*
* PAGE WITH *
YOUR PAYMENT
****

CAR-RT SORT   ** CR 01
JOHN DOE
9999 13TH PL N
NASHVILLE TN 37202-1234

INDICATE
AMOUNT OF
PAYMENT
——>

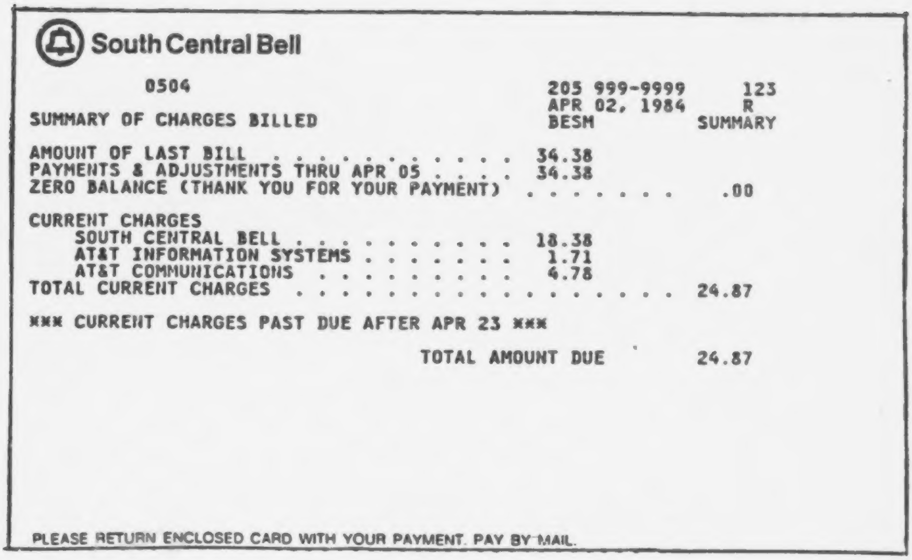
PO BOX 1354
NASH TN
37202-0001

0123112059999999123054100100307000401216200000000000500000000000000002487

TOTAL AMOUNT DUE   24.87

Attachment 2

SUMMARY PAGE



South Central Bell

```
        0504                                    205 999-9999     123
                                                APR 02, 1984      R
SUMMARY OF CHARGES BILLED                       BESM          SUMMARY

AMOUNT OF LAST BILL  . . . . . . . . . . . .  34.38
PAYMENTS & ADJUSTMENTS THRU APR 05 . . . . .  34.38
ZERO BALANCE (THANK YOU FOR YOUR PAYMENT)  . . . . . . . .     .00

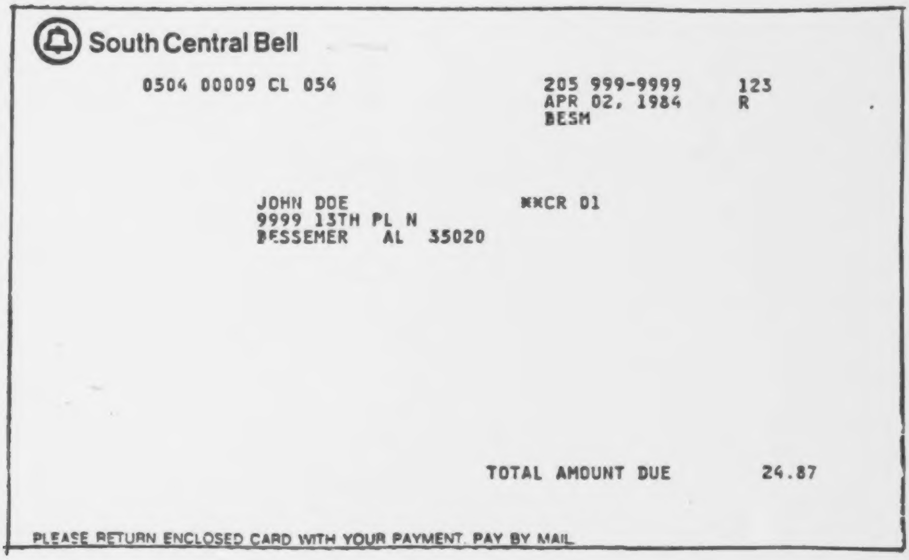
CURRENT CHARGES
    SOUTH CENTRAL BELL . . . . . . . . . . .  18.38
    AT&T INFORMATION SYSTEMS . . . . . . . .   1.71
    AT&T COMMUNICATIONS  . . . . . . . . . .   4.78
TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . . . 24.87

*** CURRENT CHARGES PAST DUE AFTER APR 23 ***

                                  TOTAL AMOUNT DUE             24.87
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 1



South Central Bell

0504 00009 CL 054

205 999-9999 123
APR 02, 1984 R
BESM

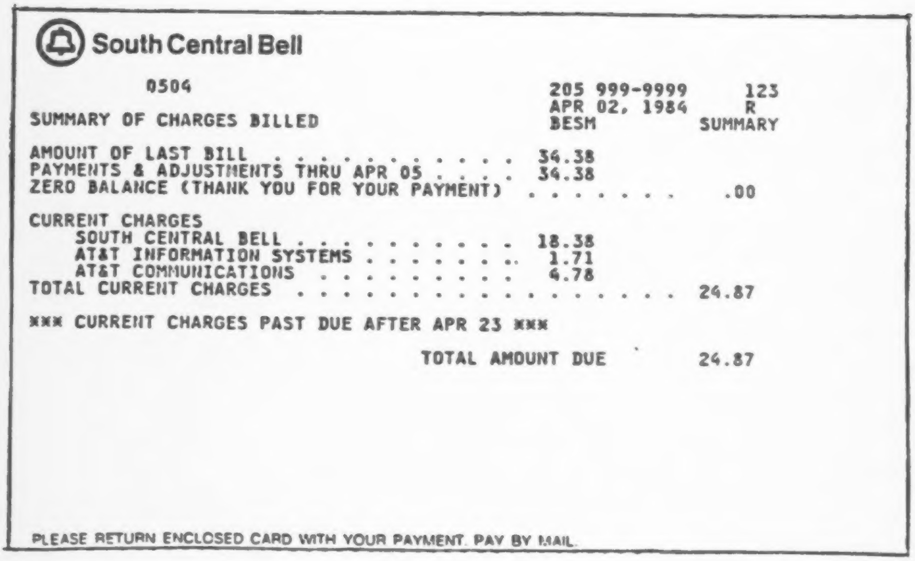
JOHN DOE
9999 13TH PL N
BESSEMER AL 35020

**CR 01

TOTAL AMOUNT DUE 24.87

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL

Attachment 3
Page 2



South Central Bell

```
        0504                                      205 999-9999      123
                                                  APR 02, 1984       R
SUMMARY OF CHARGES BILLED                         BESM           SUMMARY

AMOUNT OF LAST BILL  . . . . . . . . . . . . .  34.38
PAYMENTS & ADJUSTMENTS THRU APR 05 . . . . . .  34.38
ZERO BALANCE (THANK YOU FOR YOUR PAYMENT)  . . . . . . . .       .00

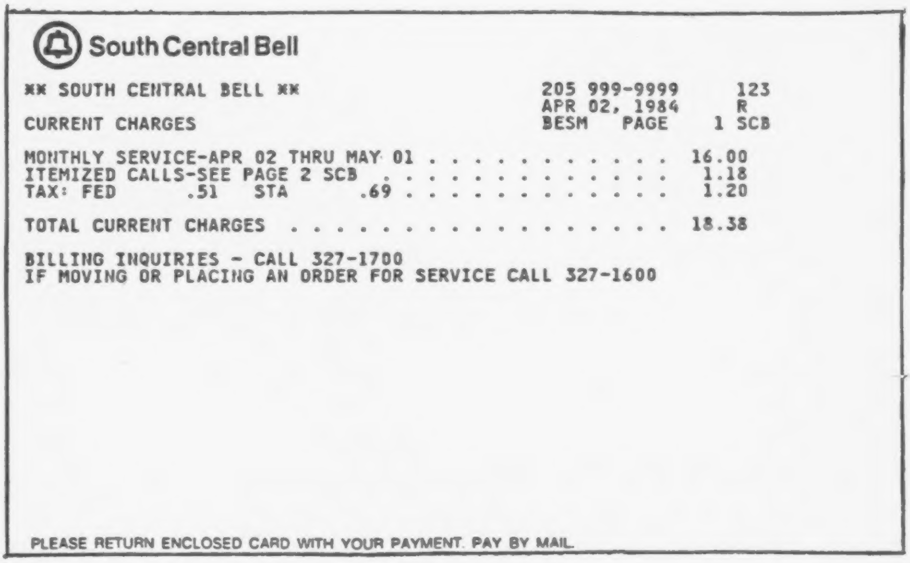
CURRENT CHARGES
    SOUTH CENTRAL BELL . . . . . . . . . . . .  18.38
    AT&T INFORMATION SYSTEMS . . . . . . . . .   1.71
    AT&T COMMUNICATIONS  . . . . . . . . . . .   4.78
TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . . .     24.87

*** CURRENT CHARGES PAST DUE AFTER APR 23 ***

                                   TOTAL AMOUNT DUE                24.87
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 3



South Central Bell

```
** SOUTH CENTRAL BELL **                            205 999-9999      123
                                                    APR 02, 1984       R
CURRENT CHARGES                                     BESM   PAGE    1 SCB

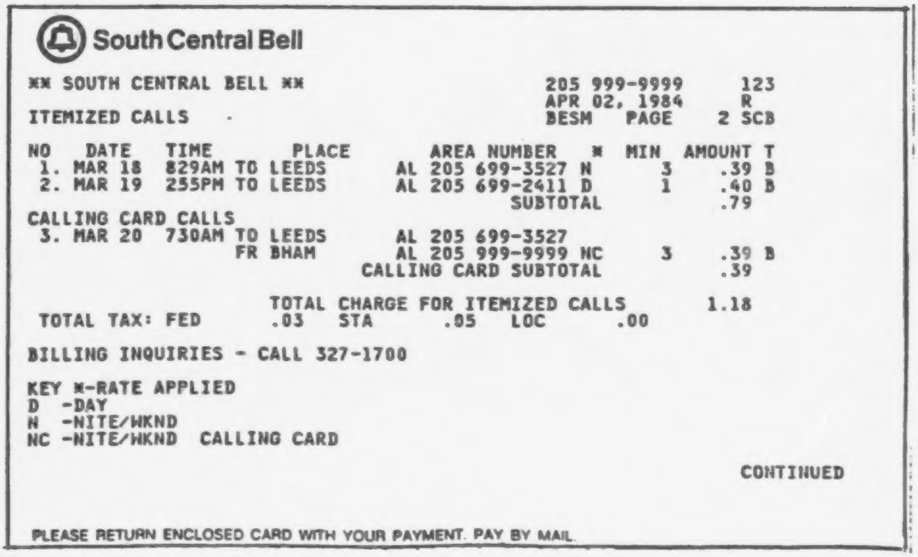
MONTHLY SERVICE-APR 02 THRU MAY 01 . . . . . . . . . . . .  16.00
ITEMIZED CALLS-SEE PAGE 2 SCB  . . . . . . . . . . . . . .   1.18
TAX: FED      .51   STA       .69 . . . . . . . . . . . . .   1.20

TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . .  18.38

BILLING INQUIRIES - CALL 327-1700
IF MOVING OR PLACING AN ORDER FOR SERVICE CALL 327-1600
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 4



South Central Bell

```
** SOUTH CENTRAL BELL **                          205 999-9999     123
                                                  APR 02, 1984      R
ITEMIZED CALLS   .                                BESM   PAGE    2 SCB

NO   DATE   TIME       PLACE        AREA NUMBER   *  MIN  AMOUNT T
 1. MAR 18  829AM TO LEEDS       AL 205 699-3527 N      3     .39 B
 2. MAR 19  255PM TO LEEDS       AL 205 699-2411 D      1     .40 B
                                          SUBTOTAL            .79
CALLING CARD CALLS
 3. MAR 20  730AM TO LEEDS       AL 205 699-3527
                  FR BHAM        AL 205 999-9999 NC     3     .39 B
                            CALLING CARD SUBTOTAL             .39

                     TOTAL CHARGE FOR ITEMIZED CALLS        1.18
 TOTAL TAX: FED      .03   STA      .05   LOC      .00

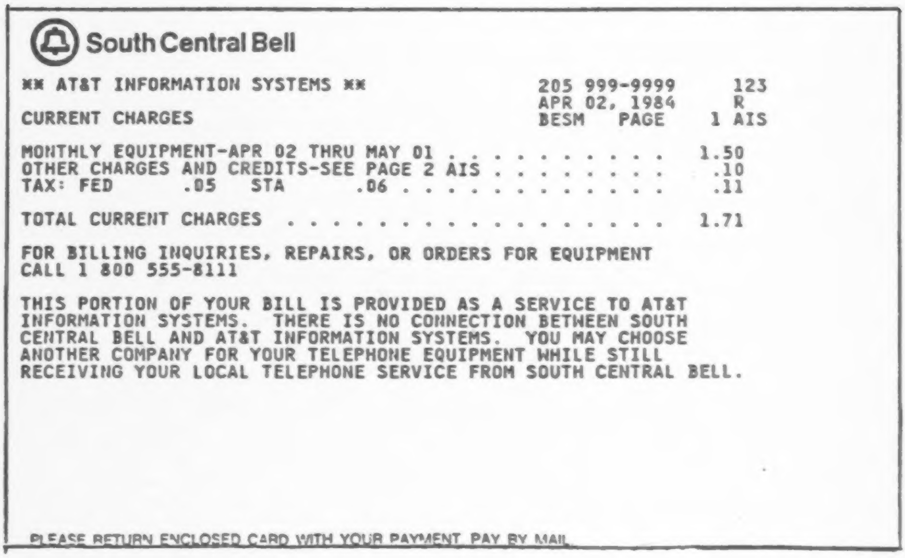
BILLING INQUIRIES - CALL 327-1700

KEY *-RATE APPLIED
D  -DAY
N  -NITE/WKND
NC -NITE/WKND  CALLING CARD

                                                        CONTINUED
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 5



South Central Bell

```
** AT&T INFORMATION SYSTEMS **                 205 999-9999      123
                                               APR 02, 1984       R
CURRENT CHARGES                                BESM    PAGE    1 AIS

MONTHLY EQUIPMENT-APR 02 THRU MAY 01 . . . . . . . . . . .   1.50
OTHER CHARGES AND CREDITS-SEE PAGE 2 AIS . . . . . . . . .    .10
TAX: FED      .05    STA      .06 . . . . . . . . . . . . .    .11

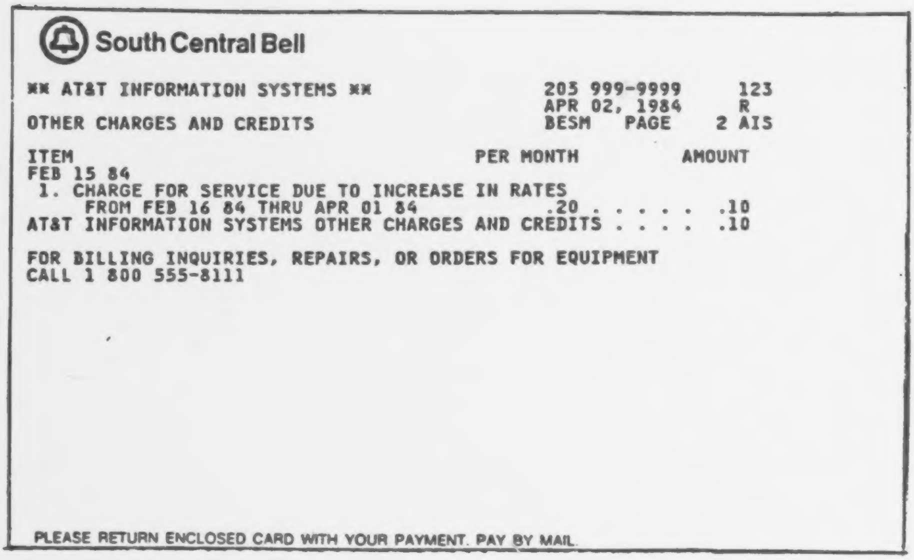
TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . .   1.71

FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
CALL 1 800 555-8111

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T
INFORMATION SYSTEMS.  THERE IS NO CONNECTION BETWEEN SOUTH
CENTRAL BELL AND AT&T INFORMATION SYSTEMS.  YOU MAY CHOOSE
ANOTHER COMPANY FOR YOUR TELEPHONE EQUIPMENT WHILE STILL
RECEIVING YOUR LOCAL TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 6



South Central Bell

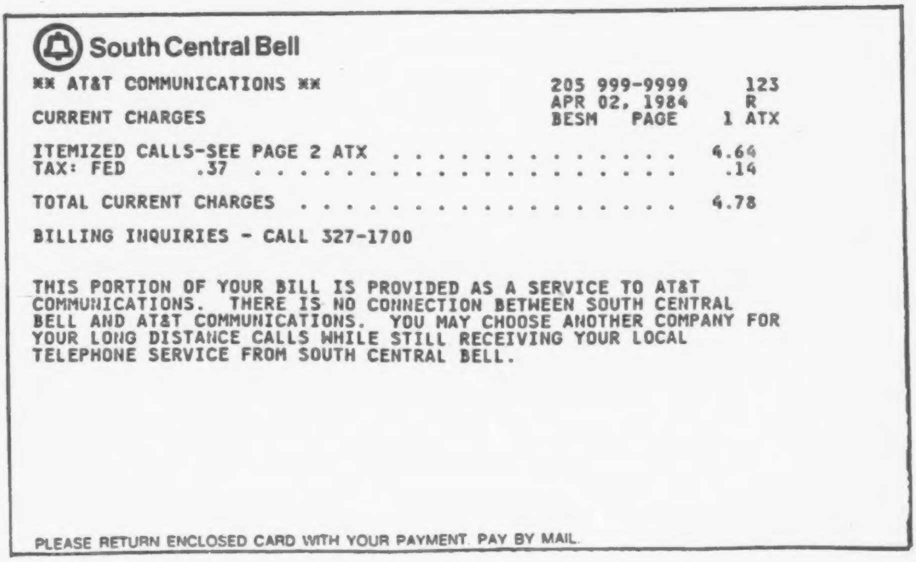
```
** AT&T INFORMATION SYSTEMS **                  205 999-9999     123
                                                APR 02, 1984     R
OTHER CHARGES AND CREDITS                       BESM   PAGE    2 AIS

ITEM                                      PER MONTH         AMOUNT
FEB 15 84
 1. CHARGE FOR SERVICE DUE TO INCREASE IN RATES
     FROM FEB 16 84 THRU APR 01 84              .20 . . . . .  .10
AT&T INFORMATION SYSTEMS OTHER CHARGES AND CREDITS . . . . .   .10

FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
CALL 1 800 555-8111
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 7



South Central Bell

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** AT&T COMMUNICATIONS **                           205 999-9999      123
                                                    APR 02, 1984        R
CURRENT CHARGES                                     BESM    PAGE    1 ATX

ITEMIZED CALLS-SEE PAGE 2 ATX . . . . . . . . . . . . . . .        4.64
TAX: FED      .37 . . . . . . . . . . . . . . . . . . . . .         .14

TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . .        4.78

BILLING INQUIRIES - CALL 327-1700

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T
COMMUNICATIONS.  THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL
BELL AND AT&T COMMUNICATIONS.  YOU MAY CHOOSE ANOTHER COMPANY FOR
YOUR LONG DISTANCE CALLS WHILE STILL RECEIVING YOUR LOCAL
TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.
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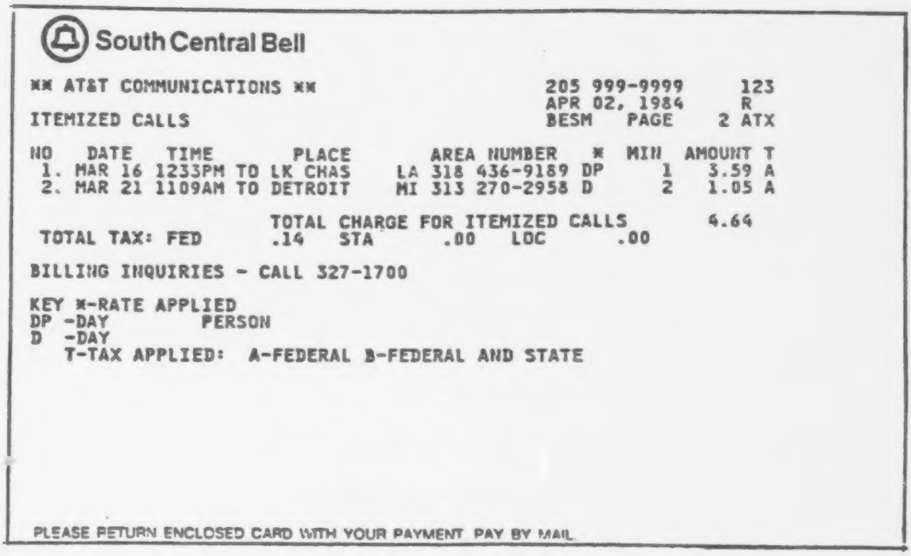
PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT. PAY BY MAIL.

Attachment 3
Page 8



South Central Bell

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** AT&T COMMUNICATIONS **                            205 999-9999      123
                                                     APR 02, 1984       R
ITEMIZED CALLS                                       BESM    PAGE     2 ATX

NO   DATE   TIME        PLACE       AREA NUMBER    *  MIN  AMOUNT T
 1. MAR 16 1233PM TO LK CHAS    LA 318 436-9189 DP      1    3.59 A
 2. MAR 21 1109AM TO DETROIT    MI 313 270-2958 D       2    1.05 A

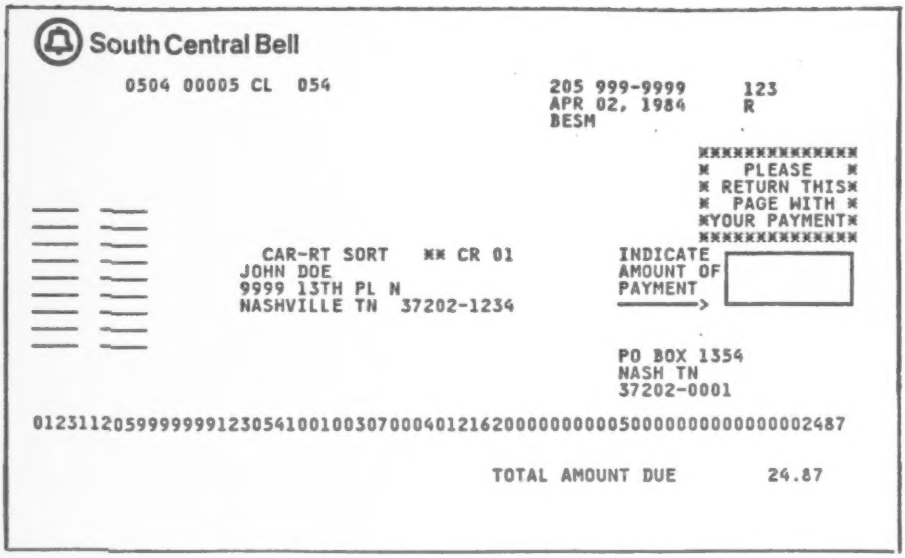
                     TOTAL CHARGE FOR ITEMIZED CALLS         4.64
 TOTAL TAX: FED      .14   STA       .00   LOC       .00

BILLING INQUIRIES - CALL 327-1700

KEY *-RATE APPLIED
DP -DAY          PERSON
D  -DAY
   T-TAX APPLIED:  A-FEDERAL B-FEDERAL AND STATE
```

PLEASE RETURN ENCLOSED CARD WITH YOUR PAYMENT PAY BY MAIL

Attachment 4
Page 1



South Central Bell

0504 00005 CL 054

205 999-9999 123
APR 02, 1984 R
BESM

****
* PLEASE *
* RETURN THIS*
* PAGE WITH *
YOUR PAYMENT
****

CAR-RT SORT ** CR 01
JOHN DOE
9999 13TH PL N
NASHVILLE TN 37202-1234

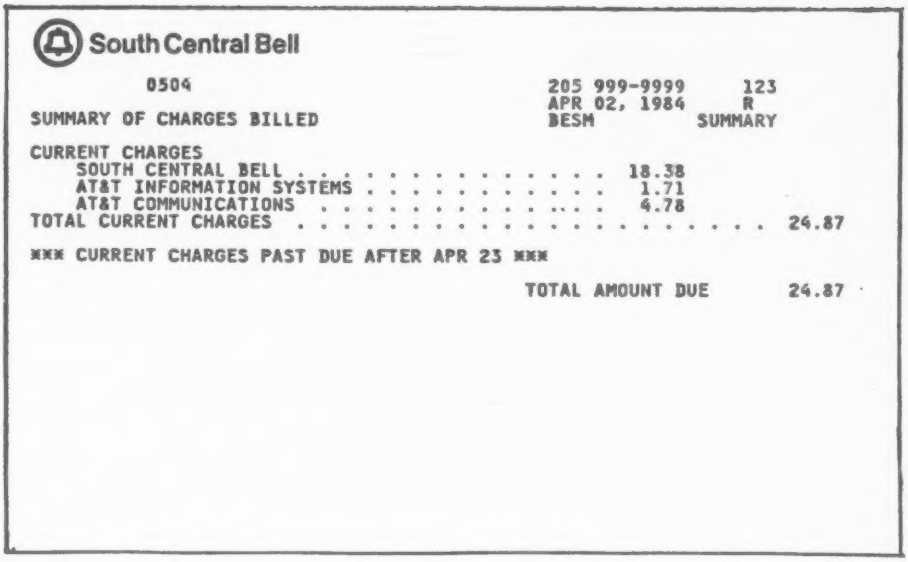
INDICATE
AMOUNT OF
PAYMENT
——————>

PO BOX 1354
NASH TN
37202-0001

01231120599999991230541001003070004012162000000000050000000000000002487

TOTAL AMOUNT DUE 24.87

Attachment 4
Page 2



South Central Bell

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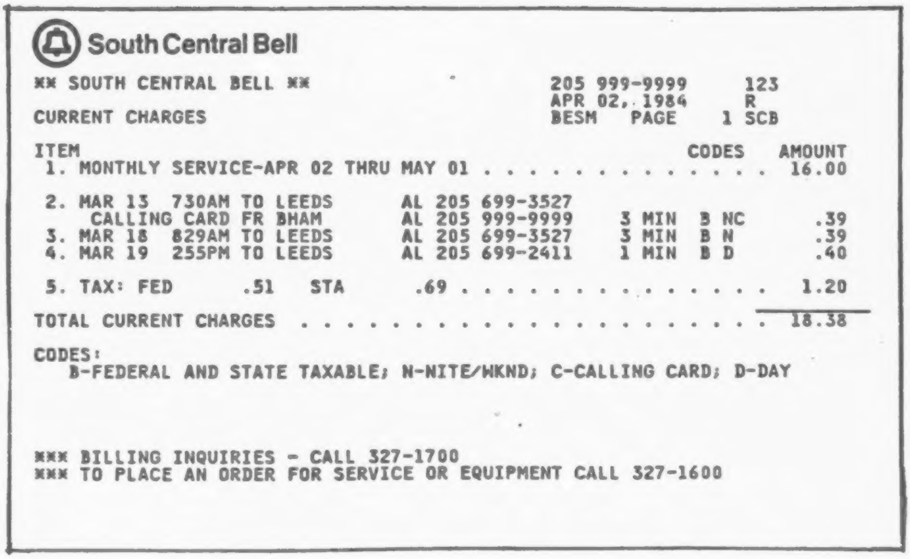
        0504                                   205 999-9999     123
                                               APR 02, 1984      R
SUMMARY OF CHARGES BILLED                      BESM          SUMMARY

CURRENT CHARGES
    SOUTH CENTRAL BELL . . . . . . . . . . . . . . . 18.38
    AT&T INFORMATION SYSTEMS . . . . . . . . . . . .  1.71
    AT&T COMMUNICATIONS  . . . . . . . . . . . . . .  4.78
TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . . . . . 24.87

*** CURRENT CHARGES PAST DUE AFTER APR 23 ***

                                             TOTAL AMOUNT DUE      24.87
```

Attachment 4
Page 3



South Central Bell

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** SOUTH CENTRAL BELL **                        205 999-9999      123
                                                APR 02, 1984       R
CURRENT CHARGES                                 BESM    PAGE     1 SCB

ITEM                                                         CODES   AMOUNT
 1. MONTHLY SERVICE-APR 02 THRU MAY 01 . . . . . . . . . . . . . . . 16.00

 2. MAR 13   730AM TO LEEDS        AL 205 699-3527
     CALLING CARD FR BHAM          AL 205 999-9999     3 MIN   B NC       .39
 3. MAR 18   829AM TO LEEDS        AL 205 699-3527     3 MIN   B N        .39
 4. MAR 19   255PM TO LEEDS        AL 205 699-2411     1 MIN   B D        .40

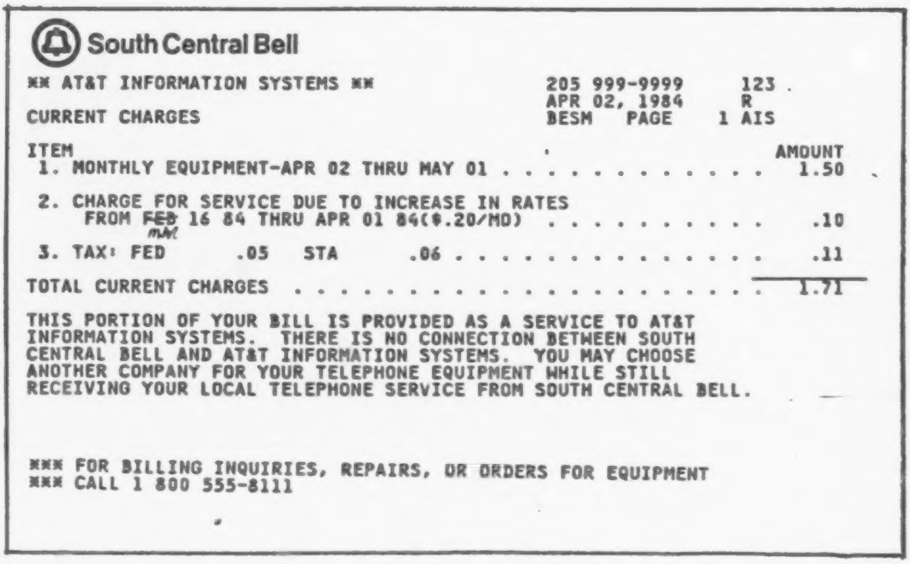
 5. TAX: FED       .51    STA       .69 . . . . . . . . . . . . . . .   1.20

TOTAL CURRENT CHARGES . . . . . . . . . . . . . . . . . . . . . . . .  18.38

CODES:
   B-FEDERAL AND STATE TAXABLE; N-NITE/WKND; C-CALLING CARD; D-DAY


*** BILLING INQUIRIES - CALL 327-1700
*** TO PLACE AN ORDER FOR SERVICE OR EQUIPMENT CALL 327-1600
```

Attachment 4
Page 4



South Central Bell

** AT&T INFORMATION SYSTEMS ** 205 999-9999 123
APR 02, 1984 R
CURRENT CHARGES BESM PAGE 1 AIS

ITEM AMOUNT
1. MONTHLY EQUIPMENT-APR 02 THRU MAY 01 . . . . 1.50

2. CHARGE FOR SERVICE DUE TO INCREASE IN RATES
FROM ~~FEB~~ MAR 16 84 THRU APR 01 84($.20/MO) 10

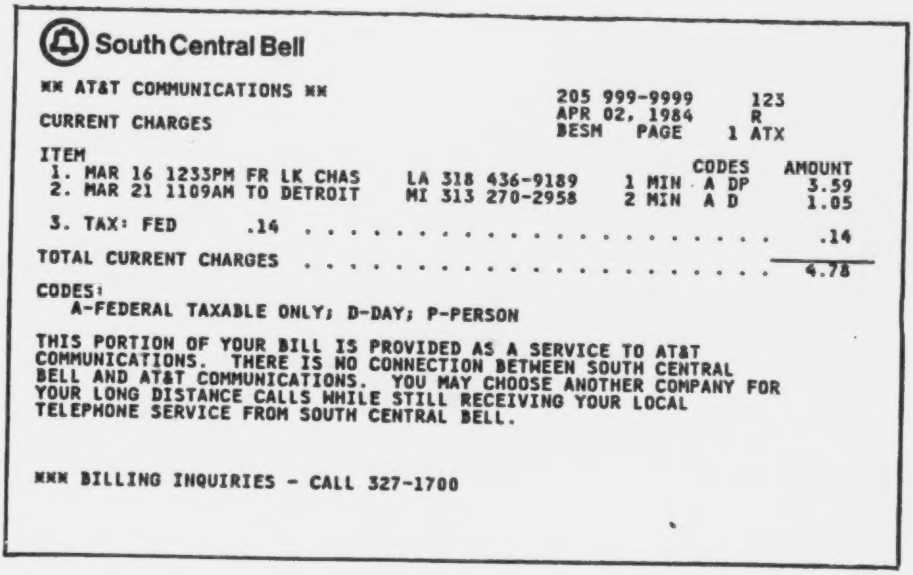
3. TAX: FED .05 STA .06 11

TOTAL CURRENT CHARGES 1.71

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T INFORMATION SYSTEMS. THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL BELL AND AT&T INFORMATION SYSTEMS. YOU MAY CHOOSE ANOTHER COMPANY FOR YOUR TELEPHONE EQUIPMENT WHILE STILL RECEIVING YOUR LOCAL TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.

*** FOR BILLING INQUIRIES, REPAIRS, OR ORDERS FOR EQUIPMENT
*** CALL 1 800 555-8111

Attachment 4
Page 5



South Central Bell

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** AT&T COMMUNICATIONS **
                                            205 999-9999      123
CURRENT CHARGES                             APR 02, 1984       R
                                            BESM    PAGE     1 ATX
ITEM
                                                          CODES     AMOUNT
 1. MAR 16 1233PM FR LK CHAS    LA 318 436-9189     1 MIN  A DP       3.59
 2. MAR 21 1109AM TO DETROIT    MI 313 270-2958     2 MIN  A D        1.05

 3. TAX: FED       .14  . . . . . . . . . . . . . . . . . . . . . .    .14

TOTAL CURRENT CHARGES  . . . . . . . . . . . . . . . . . . . . . .   4.78

CODES:
   A-FEDERAL TAXABLE ONLY; D-DAY; P-PERSON

THIS PORTION OF YOUR BILL IS PROVIDED AS A SERVICE TO AT&T
COMMUNICATIONS.  THERE IS NO CONNECTION BETWEEN SOUTH CENTRAL
BELL AND AT&T COMMUNICATIONS.  YOU MAY CHOOSE ANOTHER COMPANY FOR
YOUR LONG DISTANCE CALLS WHILE STILL RECEIVING YOUR LOCAL
TELEPHONE SERVICE FROM SOUTH CENTRAL BELL.


*** BILLING INQUIRIES - CALL 327-1700
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APPENDIX N.—BELL SOUTH ESTIMATES OF IMPACT OF END-USER CHARGES ON BUSINESSES IN BELL SOUTH'S REGION

IMPACT OF END USER CHARGES ON RESIDENTIAL CUSTOMERS
MAY 25, 1984 IMPLEMENTATION OF END USER CHARGES

	Residence Flat Rate	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
ALABAMA	$17.26	$17.11	$34.37	$ 0.00	$ .60	$ (.60)	(1.7)%
KENTUCKY	15.73	15.23	30.96	0.00	.52	(.52)	(1.7)
LOUISIANA	15.50	19.16	34.66	0.00	.61	(.61)	(1.8)
MISSISSIPPI	19.35	17.93	37.28	0.00	.59	(.59)	(1.6)
TENNESSEE	15.15	15.72	30.87	0.00	.60	(.60)	(1.9)
FLORIDA	14.06	21.84	35.90	0.00	.87	(.87)	(2.4)
GEORGIA	14.98	18.65	33.63	0.00	.75	(.75)	(2.2)
NORTH CAROLINA	12.92	18.14	31.06	0.00	.60	(.60)	(1.9)
SOUTH CAROLINA	16.99	19.39	36.38	0.00	.70	(.70)	(1.9)

IMPACT OF END USER CHARGES ON RESIDENTIAL CUSTOMERS
MAY 25, 1984 IMPLEMENTATION OF $4.00 END USER CHARGE

	Residence Flat Rate	Toll Service	Total	End User Charge	21.3% Toll Reduction	Net Change	% Change
ALABAMA	$17.26	$17.11	$34.37	$ 4.00	$ 2.07	$ 1.93	5.6%
KENTUCKY	15.73	15.23	30.96	4.00	1.81	2.19	7.1
LOUISIANA	15.50	19.16	34.66	4.00	2.13	1.87	5.4
MISSISSIPPI	19.35	17.93	37.28	4.00	2.06	1.94	5.2
TENNESSEE	15.15	15.72	30.87	4.00	2.08	1.92	6.2
FLORIDA	14.06	21.84	35.90	4.00	3.08	.92	2.6
GEORGIA	14.98	18.65	33.63	4.00	2.57	1.43	4.3
NORTH CAROLINA	12.92	18.14	31.06	4.00	2.09	1.91	6.1
SOUTH CAROLINA	16.99	19.39	36.38	4.00	2.44	1.56	4.3

IMPACT OF END USER CHARGES IN ALABAMA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$38.86	$26.95	$65.81	$ 0.00	$ .94	$(.94)	(1.4)%
2	77.72	87.48	165.20	12.00	3.06	8.94	5.4
3	116.58	166.80	283.38	18.00	5.84	12.16	4.3
4-5	174.87	334.99	509.86	27.00	11.72	15.28	3.0
6-10	310.88	788.58	1,099.46	48.00	27.60	20.40	1.9

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$38.86	$26.95	$65.81	$ 4.00	$ 3.26	$ .74	1.1%
2	77.72	87.48	165.20	12.00	10.59	1.41	0.8
3	116.58	166.80	283.38	18.00	20.18	(2.18)	(0.8)
4-5	174.87	334.99	509.86	27.00	40.53	(13.53)	(2.7)
6-10	310.88	788.58	1,099.46	48.00	95.42	(47.42)	(4.3)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN FLORIDA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$27.35	$31.61	$58.96	$ 0.00	$ 1.26	($1.26)	(2.1)%
2	54.70	80.38	135.08	12.00	3.22	8.78	6.5
3	82.05	136.93	218.98	18.00	5.48	12.52	5.7
4-5	123.08	218.92	342.00	27.00	8.76	18.24	5.3
6-10	218.80	444.73	663.53	48.00	17.79	30.21	4.6

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.6% Toll Reduction*	Net Change	% Change
1	$27.35	$31.61	$58.96	$ 4.00	$ 4.46	$(.46)	(0.3)%
2	54.70	80.38	135.08	12.00	11.33	.67	0.5
3	82.05	136.93	218.98	18.00	19.31	(1.31)	(0.6)
4-5	123.08	218.92	342.00	27.00	30.87	(3.87)	(1.1)
6-10	218.80	444.73	663.53	48.00	62.71	(14.71)	(2.2)

*Includes previously authorized 6.1% toll reduction.

Impact of end user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN GEORGIA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$34.74	$27.80	$62.54	$ 0.00	$ 1.11	$(1.11)	(1.8)%
2	69.48	80.19	149.67	11.62	3.21	8.41	5.6
3	104.22	145.86	250.08	17.43	5.83	11.60	4.6
4-5	156.33	243.82	400.15	26.15	9.75	16.40	4.1
6-10	277.92	507.78	785.70	46.48	20.31	26.17	3.3

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$34.74	$27.80	$62.54	$ 4.00	$ 3.84	$ .16	0.3%
2	69.48	80.19	149.67	11.62	11.07	.55	0.4
3	104.22	145.86	250.08	17.43	20.13	(2.70)	(1.1)
4-5	156.33	243.82	400.15	26.15	33.65	(7.50)	(1.9)
6-10	277.92	507.78	785.70	46.48	70.07	(23.59)	(3.0)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN KENTUCKY

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$40.43	$29.08	$69.51	$ 0.00	$ .99	$(.99)	(1.4)%
2	80.86	91.48	172.34	10.90	3.11	7.79	4.5
3	121.29	147.87	269.16	16.35	5.03	11.32	4.2
4-5	181.94	285.34	467.28	24.53	9.70	14.83	3.2
6-10	323.44	630.95	954.39	43.60	21.45	22.15	2.3

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$40.43	$29.08	$69.51	$ 4.00	$ 3.46	$ .54	0.8%
2	80.86	91.48	172.34	10.90	10.89	.01	0.0
3	121.29	147.87	269.16	16.35	17.60	(1.25)	(0.5)
4-5	181.94	285.34	467.28	24.53	33.96	(9.43)	(2.0)
6-10	323.44	630.95	954.39	43.60	75.08	(31.48)	(3.3)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN LOUISIANA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$32.26	$29.83	$62.09	$ 0.00	$ .95	$(.95)	(1.5)%
2	64.52	80.52	145.04	12.00	2.58	9.42	6.5
3	96.78	140.79	237.57	18.00	4.51	13.49	5.7
4-5	145.17	234.54	379.71	27.00	7.51	19.49	5.1
6-10	258.08	517.62	775.70	48.00	16.56	31.44	4.1

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$32.26	$29.83	$62.09	$ 4.00	$ 3.31	$ .69	1.1%
2	64.52	80.52	145.04	12.00	8.94	3.06	2.1
3	96.78	140.79	237.57	18.00	15.63	2.37	1.0
4-5	145.17	234.54	379.71	27.00	26.03	.97	0.3
6-10	258.08	517.62	775.70	48.00	57.46	(9.46)	(1.2)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN MISSISSIPPI

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$40.84	$34.44	$75.28	$ 0.00	$ 1.14	$(1.14)	(1.5)%
2	81.68	109.04	190.72	12.00	3.60	8.40	4.4
3	122.52	200.07	322.59	18.00	6.60	11.40	3.5
4-5	183.78	352.75	536.53	27.00	11.64	15.36	2.9
6-10	326.72	734.10	1,060.82	48.00	24.23	23.77	2.2

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$40.84	$34.44	$75.28	$ 4.00	$ 3.96	$ .04	0.0%
2	81.68	109.04	190.72	12.00	12.54	(.54)	(0.3)
3	122.52	200.07	322.59	18.00	23.01	(5.01)	(1.6)
4-5	183.78	352.75	536.53	27.00	40.57	(13.57)	(2.5)
6-10	326.72	734.10	1,060.82	48.00	84.42	(36.42)	(3.4)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN NORTH CAROLINA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$31.01	$27.65	$58.66	$ 0.00	$ .91	$(.91)	(1.6)%
2	62.02	93.41	155.43	9.30	3.08	6.22	4.0
3	93.03	177.12	270.15	13.95	5.84	8.11	3.0
4-5	139.55	315.84	455.39	20.93	10.42	10.51	2.3
6-10	248.08	576.68	824.76	37.20	19.03	18.17	2.2

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$31.01	$27.65	$58.66	$ 4.00	$ 3.18	$ .82	1.4%
2	62.02	93.41	155.43	9.30	10.74	(1.44)	(0.9)
3	93.03	177.12	270.15	13.95	20.37	(6.42)	(2.4)
4-5	139.55	315.84	455.39	20.93	36.32	(15.39)	(3.4)
6-10	248.08	576.68	824.76	37.20	66.32	(29.12)	(3.5)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END USER CHARGES IN SOUTH CAROLINA

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$38.32	$28.90	$67.22	$ 0.00	$ 1.04	$(1.04)	(1.5)%
2	76.64	92.07	168.71	9.32	3.31	6.01	3.6
3	114.96	169.74	284.70	13.98	6.11	7.87	2.8
4-5	172.44	275.98	448.42	20.97	9.94	11.03	2.5
6-10	306.56	508.92	815.48	37.28	18.32	18.96	2.3

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$38.32	$28.90	$67.22	$ 4.00	$ 3.64	$ .36	0.5%
2	76.64	92.07	168.71	9.32	11.60	(2.28)	(1.4)
3	114.96	169.74	284.70	13.98	21.39	(7.41)	(2.6)
4-5	172.44	275.98	448.42	20.97	34.77	(13.80)	(3.1)
6-10	306.56	508.92	815.48	37.28	64.12	(26.84)	(3.3)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END U[illegible] CHARGES IN TENNESSEE

MAY 25, 1984 IMPLEMENTATION OF END USER CHARGE FOR MULTILINE BUSINESS CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	6.1% Toll Reduction	Net Change	% Change
1	$36.91	$26.03	$62.94	$ 0.00	$ .99	$(.99)	(1.6)%
2	73.82	80.61	154.43	9.78	3.06	6.72	4.4
3	110.73	146.38	257.11	14.67	5.56	9.11	3.5
4-5	166.10	271.77	437.87	22.01	10.33	11.68	2.7
6-10	295.28	760.83	1,056.11	39.12	28.91	10.21	1.0

PROPOSED IMPLEMENTATION OF END-USER CHARGE FOR SINGLE LINE BUSINESS AND RESIDENTIAL CUSTOMERS

# of Lines	Business Lines	Toll Service	Total	End User Charge	Potential 21.3% Toll Reduction*	Net Change	% Change
1	$36.91	$26.03	$62.94	$ 4.00	$ 3.44	$ .56	0.9%
2	73.82	80.61	154.43	9.78	10.64	(.86)	(0.6)
3	110.73	146.38	257.11	14.67	19.32	(4.65)	(1.8)
4-5	166.10	271.77	437.87	22.01	35.87	(13.86)	(3.2)
6-10	295.28	760.83	1,056.11	39.12	100.43	(61.31)	(5.8)

*Includes previously authorized 6.1% toll reduction.

Impact of end-user charges as indicated on this page are overstated because charges on this page do not include other telecommunications charges for business customers (custom calling services, Touchtone services, customer premises equipment, directory advertising, etc.).

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 to 10 LINES

ALABAMA

Lines	Business Customers	Exchange Access and Toll Revenues	May 25, 1984 Net Change	Potential Net Change
1	60,683	$ 3,993,548	$(57,042)	$ 44,905
2	15,273	2,523,100	136,541	21,535
3	6,432	1,822,700	78,213	(14,022)
4-5	4,967	2,532,475	75,896	(67,204)
6-10	3,054	3,357,751	62,302	(144,821)
	90,409	$14,229,574	$295,910	$(159,607)
	Net Change Per Customer		$3.27	$(1.77)
	% Change Per Customer		2.1%	(1.1)%

KENTUCKY

1	42,358	$ 2,944,305	$(41,934)	$ 22,873
2	10,108	1,742,013	78,741	101
3	4,039	1,087,137	45,721	(5,049)
4-5	3,031	1,416,326	44,950	(28,582)
6-10	1,941	1,852,471	42,993	(61,103)
	61,477	$ 9,042,252	$170,471	$(71,760)
	Net Change Per Customer		$2.77	($1.17)
	% Change Per Customer		1.9%	(0.8)%

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 to 10 LINES

LOUISIANA

Lines	Business Customers	Exchange Access and Toll Revenues	May 25, 1984 Net Change	Potential Net Change
1	89,571	$ 5,561,463	$(85,092)	$61,804
2	24,229	3,514,174	228,237	74,141
3	11,607	2,757,475	156,578	27,509
4-5	9,776	3,712,045	190,534	9,483
6-10	5,420	4,204,294	170,405	(51,273)
	140,603	$19,749,451	$660,662	121,664
	Net Change Per Customer		$4.70	$ .87
	% Change Per Customer		3.3%	0.6%

MISSISSIPPI

1	50,703	$ 3,816,922	$(57,801)	$ 2,028
2	11,804	2,251,260	99,154	(6,374)
3	4,504	1,452,945	51,346	(22,565)
4-5	3,165	1,698,118	48,614	(42,949)
6-10	1,812	1,922,206	43,071	(65,993)
	71,988	$11,141,459	$184,384	$(135,853)
	Net Change Per Customer		$2.56	$(1.88)
	% Change Per Customer		1.7%	(1.2)%

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 to 10 LINES

TENNESSEE

Lines	Business Customers	Exchange Access and Toll Revenues	May 25, 1984 Net Change	Potential Net Change
1	78,926	$ 4,967,502	$(78,137)	$ 44,199
2	21,152	3,266,503	142,141	(18,191)
3	9,151	2,352,814	83,366	(42,552)
4-5	7,561	3,310,735	88,312	(104,795)
6-10	4,795	5,064,048	48,957	(293,981)
	121,585	$18,961,702	$284,639	$(415,320)
	Net Change Per Customer		$2.34	$(3.42)
	% Change Per Customer		1.5%	(2.2)%

FLORIDA

1	158,533	$ 9,347,106	$(199,752)	$(72,925)
2	46,798	6,321,474	410,886	31,355
3	22,456	4,917,415	281,149	(29,417)
4-5	17,655	6,038,010	322,027	(68,325)
6-10	9,781	6,489,987	295,484	(143,879)
	255,223	$33,113,992	$1,109,794	$(283,191)
	Net Change Per Customer		$4.35	$(1.11)
	% Change Per Customer		3.4%	(.9)%

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 to 10 LINES

GEORGIA

Lines	Business Customers	Exchange Access and Toll Revenues	May 25, 1984 Net Change	Potential Net Change
1	93,655	$ 5,857,184	$(103,957)	$ 14,985
2	29,837	4,465,704	250,929	16,410
3	13,759	3,440,851	159,604	(37,149)
4-5	11,030	4,413,655	180,892	(82,725)
6-10	6,099	4,791,984	159,611	(143,875)
	154,380	$22,969,378	$647,079	$(232,354)
	Net Change Per Customer		$4.19	$(1.51)
	% Change Per Customer		2.8%	(1.0)%

NORTH CAROLINA

1	63,075	$ 3,699,980	$(57,398)	$ 51,722
2	16,868	2,621,793	104,919	(24,290)
3	7,384	1,994,788	59,884	(47,405)
4-5	5,772	2,628,511	60,664	(88,831)
6-10	3,133	2,583,973	56,927	(91,233)
	96,232	$13,529,045	$224,996	(200,037)
	Net Change Per Customer		$2.34	$(2.08)
	% Change Per Customer		1.7%	(1.5)%

IMPACT OF END-USER CHARGES IN BELLSOUTH STATES ON BUSINESS CUSTOMERS WITH FROM 1 to 10 LINES

SOUTH CAROLINA

Lines	Business Customers	Exchange Access and Toll Revenues	May 25, 1984 Net Change	Potential Net Change
1	41,565	$ 2,793,999	$ (43,228)	$ 14,963
2	11,247	1,897,481	67,594	(25,643)
3	4,791	1,363,998	37,705	(35,501)
4-5	3,517	1,577,093	38,793	(48,535)
6-10	1,899	1,548,597	36,005	(50,969)
	63,019	$9,181,168	$136,869	$(145,685)
	Net Change Per Customer		$2.17	$(2.31)
	% Change Per Customer		1.5%	(1.6)%

BELLSOUTH

1,054,916		$3,714,804	$(1,522,143)
Net Change Per Customer		$3.52	$(1.44)

South Carolina

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SBSC
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 11.47.14

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY *	5,301	1,816	3,485	444	209	4,357	5,011	5,011	3.67
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE *	18,601	8,681	9,920	1,265	759	5,464	7,488	7,488	5.49
COMM LINE-IH *	17,710	6,924	10,786	1,375	701	6,111	8,188	8,188	6.00
COMM LINE-BFP *	141,815	34,861	106,954	13,637	5,609	27,261	46,506	46,506	34.07
LINE TERM	11,737	3,886	7,850	1,001	459	3,242	4,701	4,701	3.44
LOCAL SWITCH	19,911	6,593	13,318	1,693	777	6,636	9,111	9,111	6.67
INTERCEPT	180	59	121	15	7	52	74	74	0.05
INFORMATN	1,334	426	908	116	50	4,002	4,168	4,168	3.05
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	50,978	23,454	27,524	3,509	1,998	14,559	20,066	20,066	14.70
DAL-CPE *	153	72	82	10	6	45	62	62	0.05
DAL-IH *	146	57	89	11	6	50	67	67	0.05
DAL-BFP *	1,166	287	879	112	46	221	379	379	0.28
SPECIAL ACCESS	57,887	27,004	30,883	3,938	2,946	15,436	22,369	22,369	16.39
BIL&COL-MSG-REC	5,067	1,678	3,389	432	198	1,400	2,030	2,030	1.49
BIL&COL-MSG-OTH	373	106	267	34	6	6,223	6,263	6,263	4.59
BIL&COL PL	1	0	1	0	0	21	21	21	0.02
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	332,360	115,904	216,456	27,598	13,777	95,129	136,504	136,504	100.00

* NON TRAFFIC SENSITIVE CATEGORIES

ACCESS CHARGE ANALYSIS SYSTEM

STUDY AREA: SBSC
STUDY YEAR: 1984

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

RUN DATE: 02/27/84
RUN TIME: 12.19.36

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	136,504,139	0	5,010,609	0	7,488,374
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	136,504,139	0	5,010,609	0	7,488,374
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	136,504,139	0	5,010,609	0	7,488,374
7	MAINTENANCE	29,817,000	0	1,163,949	0	1,715,139
8	DEPRECIATION & AMORT.	21,701,377	0	502,770	0	2,296,150
9	TRAFFIC EXPENSES	4,168,000	0	0	0	0
10	COML. & MKTG. EXPS.	8,766,000	0	1,790,939	0	205,772
11	OPERATING RENTS	2,281,000	0	25,148	0	16,584
12	RELIEF AND PENSIONS	6,784,000	0	323,331	0	269,910
13	GENL. SVC. & LIC.	1,692,000	0	77,363	0	93,138
14	OTHER GENL. EXPENSES	10,127,000	0	244,445	0	360,859
15	MISC. INCOME CHARGES	168,000	0	2,700	0	9,017
16	INT. ON CUSTOMERS' DEP.	141,623	0	2,299	0	8,335
17	OTHER TAXES	9,403,000	0	223,924	0	408,780
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	95,129,000	0	4,356,877	0	5,444,484
20	FEDERAL TAXES ON INCOME	13,777,000	0	209,409	0	759,095
21	TOTAL EXPENSES	108,906,000	0	4,566,286	0	6,223,579
22	NET EARNINGS	27,598,139	0	444,323	0	1,264,795
23	TELEPHONE PLANT IN SERVICE	326,043,000	0	8,253,210	0	18,429,879
24	TELEPHONE PLANT UNDER CONST.	2,467,000	0	5,538	0	20,531
25	PROPERTY HELD FOR FUT TEL USE	108,000	0	1,115	0	834
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	608,000	0	6,926	0	25,108
28	CASH WORKING CAPITAL	2,254,000	0	34,337	0	124,471
29	LESS-DEPRE. AND AMORT. RES.	69,923,000	0	944,757	0	4,567,661
30	-ACC. DEFD. INC. TAXES	44,343,000	0	846,378	0	4,002,191
31	-CUSTOMERS' DEPOSITS	1,638,000	0	25,108	0	91,014
32	AVERAGE NET INVESTMENT	216,456,000	0	3,484,884	0	9,919,957
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBSC
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.19.38

		COMM LINE-IN	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	8,187,543	46,506,449	4,701,386	9,111,093	74,355
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	8,187,543	46,506,449	4,701,386	9,111,093	74,355
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	8,187,543	46,506,449	4,701,386	9,111,093	74,355
7	MAINTENANCE	2,891,107	9,934,053	858,642	2,345,651	12,835
8	DEPRECIATION & AMORT.	1,505,620	6,175,008	817,020	1,385,760	12,129
9	TRAFFIC EXPENSES	0	0	283,159	480,158	6,272
10	COML. & MKTG. EXPS.	190,088	1,721,271	261,817	443,903	4,016
11	OPERATING RENTS	16,867	812,971	106,462	181,307	2,484
12	RELIEF AND PENSIONS	431,064	1,809,572	209,566	472,683	3,327
13	GENL. SVC. & LIC.	104,740	443,900	84,849	113,541	882
14	OTHER GENL. EXPENSES	439,275	2,683,651	327,742	624,108	4,995
15	MISC. INCOME CHARGES	9,069	72,532	5,930	10,054	91
16	INT. ON CUSTOMERS' DEP.	7,700	61,586	5,035	8,537	77
17	OTHER TAXES	515,497	3,546,542	311,725	569,036	4,821
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	6,111,026	27,261,087	3,241,948	6,635,538	51,928
20	FEDERAL TAXES ON INCOME	701,238	5,608,669	458,549	777,455	7,033
21	TOTAL EXPENSES	6,812,265	32,869,755	3,700,497	7,412,993	58,961
22	NET EARNINGS	1,375,278	13,636,693	1,000,889	1,698,099	15,394
23	TELEPHONE PLANT IN SERVICE	17,568,995	140,360,119	11,407,056	19,480,130	176,181
24	TELEPHONE PLANT UNDER CONST.	2,285	336,767	151,628	257,120	2,167
25	PROPERTY HELD FOR FUT TEL USE	889	13,321	7,494	12,766	100
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	23,194	185,511	18,167	25,715	233
28	CASH WORKING CAPITAL	114,984	919,672	75,190	127,482	1,153
29	LESS-DEPRE. AND AMORT. RES.	3,286,150	21,705,669	1,965,088	3,334,159	30,624
30	-ACC. DEFD. INC. TAXES	3,553,628	12,482,795	1,866,356	3,165,411	27,711
31	-CUSTOMERS' DEPOSITS	84,077	672,468	54,979	93,215	843
32	AVERAGE NET INVESTMENT	10,786,493	106,954,458	7,850,110	13,318,427	120,737
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBSC
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.19.30

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IH
1	GROSS SERVICE REVENUES	4,167,617	0	20,065,968	61,697	67,458
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	4,167,617	0	20,065,968	61,697	67,458
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	4,167,617	0	20,065,968	61,697	67,458
7	MAINTENANCE	82,921	0	4,390,685	14,131	23,020
8	DEPRECIATION & AMORT.	78,162	0	4,085,252	18,918	12,405
9	TRAFFIC EXPENSES	2,556,808	0	301,278	0	0
10	COML. & MKTG. EXPS.	46,445	0	1,140,706	1,695	1,566
11	OPERATING RENTS	43,680	0	713,245	137	139
12	RELIEF AND PENSIONS	556,420	0	802,221	2,224	3,552
13	GENL. SVC. & LIC.	70,756	0	247,301	767	863
14	OTHER GENL. EXPENSES	343,594	0	1,403,131	2,973	3,619
15	MISC. INCOME CHARGES	647	0	25,036	81	75
16	INT. ON CUSTOMERS' DEP.	549	0	21,937	69	63
17	OTHER TAXES	221,035	0	1,347,276	4,027	4,247
18	DELAYED INC. CR. & CH.	0	0	[illegible]	0	0
19	TOTAL EXPENSES & OTHER TAXES	4,001,817	0	14,558,869	45,022	50,349
20	FEDERAL TAXES ON INCOME	50,024	0	1,997,843	6,254	5,778
21	TOTAL EXPENSES	4,051,841	0	16,556,712	51,276	56,127
22	NET EARNINGS	115,777	0	3,509,256	10,421	11,331
23	TELEPHONE PLANT IN SERVICE	1,309,069	0	50,043,260	151,045	144,752
24	TELEPHONE PLANT UNDER CONST.	11,441	0	503,626	169	19
25	PROPERTY HELD FOR FUT TEL USE	3,279	0	37,204	7	7
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	1,655	0	66,080	207	191
28	CASH WORKING CAPITAL	8,203	0	327,593	1,026	947
29	LESS-DEPRE. AND AMORT. RES.	241,603	0	15,126,431	37,798	27,075
30	-ACC. DEFD. INC. TAXES	177,994	0	8,088,226	32,974	29,279
31	-CUSTOMERS' DEPOSITS	5,990	0	239,537	750	693
32	AVERAGE NET INVESTMENT	908,052	0	27,523,577	81,731	88,071
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBSC
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.19.30

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	378,760	22,369,034	2,029,674	6,263,175	20,949
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	378,760	22,369,034	2,029,674	6,263,175	20,949
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	378,760	22,369,034	2,029,674	6,263,175	20,949
7	MAINTENANCE	81,707	5,917,902	370,705	13,739	13
8	DEPRECIATION & AMORT.	50,781	4,474,949	352,740	13,671	41
9	TRAFFIC EXPENSES	0	0	122,261	418,064	0
10	COML. & MKTG. EXPS.	12,502	320,004	113,030	2,500,013	12,233
11	OPERATING RENTS	6,666	279,707	45,911	29,660	33
12	RELIEF AND PENSIONS	14,455	967,151	90,400	745,296	2,749
13	GENL. SVC. & LIC.	3,585	344,639	23,680	111,479	519
14	OTHER GENL. EXPENSES	28,704	1,398,657	141,500	2,123,514	4,232
15	MISC. INCOME CHARGES	596	27,926	2,560	78	0
16	INT. ON CUSTOMERS' DEP.	506	22,688	2,174	66	0
17	OTHER TAXES	29,013	1,732,311	134,578	267,602	905
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	228,516	15,485,934	1,399,620	6,223,182	20,804
20	FEDERAL TAXES ON INCOME	46,121	2,945,545	197,961	6,009	17
21	TOTAL EXPENSES	266,637	18,431,478	1,597,581	6,229,191	20,821
22	NET EARNINGS	112,123	3,937,556	432,093	33,984	128
23	TELEPHONE PLANT IN SERVICE	1,154,076	55,946,756	4,959,095	369,330	1,240
24	TELEPHONE PLANT UNDER CONST.	2,769	1,107,229	65,469	125	117
25	PROPERTY HELD FOR FUT TEL USE	100	25,296	3,231	2,261	7
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	1,526	329,739	6,548	199	2
28	CASH WORKING CAPITAL	7,563	477,930	32,460	905	3
29	LESS-DEFRE. AND AMORT. RES.	178,459	17,531,977	848,323	76,959	267
30	-ACC. DEFD. INC. TAXES	102,656	9,132,848	805,781	28,678	94
31	-CUSTOMERS' DEPOSITS	5,530	339,331	23,735	720	2
32	AVERAGE NET INVESTMENT	879,396	30,882,794	3,388,964	266,843	1,006
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                        ACCESS CHARGE ANALYSIS SYSTEM

                                     INTERSTATE MONTHLY REPORT NO. 1
STUDY AREA: SBSC                                   TOTAL
STUDY YEAR: 1984
                                                                                        RUN DATE: 02/27/84
                                                                                        RUN TIME: 12.19.38
                                    INTEREXCH-MSG     INTEREXC-PL       RESERVED
                                   ---------------  ---------------  ---------------
  1  GROSS SERVICE REVENUES                      0                0                0
  2  LESS-SETTLS. EXCEPT DRC                     0                0                0
  3  SERVICE REVENUES                            0                0                0
  4  MISC. OPERATING REVENUES                    0                0                0
  5  LESS-UNCOLLECTIBLES                         0                0                0
  6  TOTAL REVENUES                              0                0                0

  7  MAINTENANCE                                 0                0                0
  8  DEPRECIATION & AMORT.                       0                0                0
  9  TRAFFIC EXPENSES                            0                0                0
 10  COML. & MKTG. EXPS.                         0                0                0
 11  OPERATING RENTS                             0                0                0
 12  RELIEF AND PENSIONS                         0                0                0
 13  GENL. SVC. & LIC.                           0                0                0
 14  OTHER GENL. EXPENSES                        0                0                0
 15  MISC. INCOME CHARGES                        0                0                0
 16  INT. ON CUSTOMERS' DEP.                     0                0                0
 17  OTHER TAXES                                 0                0                0
 18  DELAYED INC. CR. & CH.                      0                0                0

 19  TOTAL EXPENSES & OTHER TAXES                0                0                0

 20  FEDERAL TAXES ON INCOME                     0                0                0

 21  TOTAL EXPENSES                              0                0                0

 22  NET EARNINGS                                0                0                0


 23  TELEPHONE PLANT IN SERVICE                  0                0                0
 24  TELEPHONE PLANT UNDER CONST.                0                0                0
 25  PROPERTY HELD FOR FUT TEL USE               0                0                0
 26  SATELLITE EARTH STATIONS                    0                0                0
 27  MATERIALS AND SUPPLIES                      0                0                0
 28  CASH WORKING CAPITAL                        0                0                0
 29  LESS-DEPRE. AND AMORT. RES.                 0                0                0
 30      -ACC. DEFD. INC. TAXES                  0                0                0
 31      -CUSTOMERS' DEPOSITS                    0                0                0

 32  AVERAGE NET INVESTMENT                      0                0                0

 33  EARNINGS RATIO                          .1275            .0000            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE REVENUE REQUIREMENT SUMMARY

TOTAL (000)

North Carolina

STUDY AREA: SBNC
STUDY YEAR: 1984

RUN DATE: 03/14/84
RUN TIME: 12.10.35

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	7,492	2,735	4,757	607	285	5,453	6,344	6,344	3.01
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	31,076	14,848	16,228	2,069	1,205	8,632	11,906	11,906	5.64
COMM LINE-IW	33,302	14,154	19,148	2,441	1,279	12,038	15,759	15,759	7.47
COMM LINE-BFP	206,602	62,366	144,236	18,390	7,908	42,797	69,095	69,095	32.73
LINE TERM	45,713	9,862	35,851	4,571	1,727	9,354	15,652	15,652	7.42
LOCAL SWITCH	61,859	13,347	48,512	6,185	2,337	14,364	22,886	22,886	10.84
INTERCEPT	184	49	135	17	7	115	140	140	0.07
INFORMATN	1,147	354	793	101	42	4,705	4,848	4,848	2.30
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	69,539	33,699	35,840	4,570	2,646	17,540	24,755	24,755	11.73
DAL-CPE	468	224	244	31	18	130	179	179	0.08
DAL-IW	501	213	288	37	19	181	237	237	0.11
DAL-BFP	3,105	937	2,168	276	119	635	1,031	1,031	0.49
SPECIAL ACCESS	76,341	38,018	38,323	4,886	3,861	21,108	29,855	29,855	14.14
BIL&COL-MSG-REC	5,512	1,189	4,323	551	208	1,128	1,887	1,887	0.89
BIL&COL-MSG-OTH	238	93	146	19	0	6,460	6,479	6,479	3.07
BIL&COL PL	1	0	1	0	0	25	25	25	0.01
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	543,079	192,088	350,991	44,751	21,662	144,665	211,079	211,079	100.00

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                                   ACCESS CHARGE ANALYSIS SYSTEM

                                  INTERSTATE MONTHLY REPORT NO. 1
STUDY AREA: SDHC                               TOTAL
STUDY YEAR: 1984
                                                                                    RUN DATE: 03/14/84
                                                                                    RUN TIME: 12.25.04
                                TOTAL INTERSTATE  LIMITED PAY TEL   COMM LINE-PAY   COMM LINE-USF   COMM LINE-CPE
                                ----------------  ---------------  --------------  --------------  --------------
 1  GROSS SERVICE REVENUES           211,078,645                0       6,344,334               0      11,906,274
 2  LESS-SETTLS. EXCEPT DRC                    0                0               0               0               0
 3  SERVICE REVENUES                 211,078,645                0       6,344,334               0      11,906,274
 4  MISC. OPERATING REVENUES                   0                0               0               0               0
 5  LESS-UNCOLLECTIBLES                        0                0               0               0               0
 6  TOTAL REVENUES                   211,078,645                0       6,344,334               0      11,906,274

 7  MAINTENANCE                       48,825,000                0       1,828,673               0       2,563,563
 8  DEPRECIATION & AMORT.             38,685,896                0         828,276               0       4,071,863
 9  TRAFFIC EXPENSES                   5,080,000                0               0               0               0
10  COML. & MKTG. EXPS.               10,850,000                0       1,744,503               0         304,494
11  OPERATING RENTS                    4,499,000                0          38,524               0          34,922
12  RELIEF AND PENSIONS                9,725,000                0         377,435               0         399,020
13  GENL. SVC. & LIC.                  2,961,000                0         111,184               0         172,016
14  OTHER GENL. EXPENSES              12,666,000                0         283,088               0         500,109
15  MISC. INCOME CHARGES                 243,955                0           3,262               0          13,801
16  INT. ON CUSTOMERS' DEP.              244,410                0           3,210               0          13,583
17  OTHER TAXES                       10,885,000                0         234,839               0         558,918
18  DELAYED INC. CR. & CH.                     0                0               0               0               0

19  TOTAL EXPENSES & OTHER TAXES     144,665,293                0       5,452,993               0       8,632,289

20  FEDERAL TAXES ON INCOME           21,662,000                0         284,790               0       1,204,935

21  TOTAL EXPENSES                   166,327,293                0       5,737,783               0       9,837,224

22  NET EARNINGS                      44,751,352                0         606,551               0       2,069,050


23  TELEPHONE PLANT IN SERVICE       532,732,000                0       7,411,349               0      30,739,572
24  TELEPHONE PLANT UNDER CONST.       4,638,000                0          12,477               0          44,951
25  PROPERTY HELD FOR FUT TEL USE         51,000                0             103               0           1,180
26  SATELLITE EARTH STATIONS                   0                0               0               0               0
27  MATERIALS AND SUPPLIES             1,034,000                0           8,626               0          36,516
28  CASH WORKING CAPITAL               4,624,000                0          59,942               0         253,616
29  LESS-DEPRE. AND AMORT. RES.      122,214,000                0       1,518,071               0       8,464,355
30      -ACC. DEFD. INC. TAXES        68,204,000                0       1,195,930               0       6,293,792
31      -CUSTOMERS' DEPOSITS           1,670,000                0          21,233               0          89,841

32  AVERAGE NET INVESTMENT           350,991,000                0       4,757,262               0      16,227,847

33  EARNINGS RATIO                         .1275            .1275           .1275           .1275           .1275
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ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBNC
STUDY YEAR: 1984

RUN DATE: 03/14/84
RUN TIME: 12.25.04

		COMM LINE-IN	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	15,758,855	69,094,736	15,652,028	22,886,343	139,543
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	15,758,855	69,094,736	15,652,028	22,886,343	139,543
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	15,758,855	69,094,736	15,652,028	22,886,343	139,543
7	MAINTENANCE	5,435,472	16,423,230	2,832,455	5,168,103	10,618
8	DEPRECIATION & AMORT.	3,695,101	11,373,179	2,436,803	3,297,413	9,560
9	TRAFFIC EXPENSES	0	0	559,440	756,939	56,964
10	COML. & MKTG. EXPS.	323,244	2,260,186	720,668	975,052	2,901
11	OPERATING RENTS	39,004	1,658,535	376,140	509,654	5,489
12	RELIEF AND PENSIONS	798,188	2,816,696	567,727	941,274	11,975
13	GENL. SVC. & LIC.	240,993	832,097	182,241	281,648	2,315
14	OTHER GENL. EXPENSES	749,278	3,513,300	839,128	1,236,298	8,626
15	MISC. INCOME CHARGES	14,649	90,579	19,785	26,769	80
16	INT. ON CUSTOMERS' DEP.	14,417	89,146	19,472	26,345	78
17	OTHER TAXES	728,125	3,739,617	799,836	1,144,493	6,707
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	12,038,471	42,796,564	9,353,696	14,363,988	115,374
20	FEDERAL TAXES ON INCOME	1,278,971	7,908,123	1,727,363	2,337,096	6,953
21	TOTAL EXPENSES	13,317,443	50,704,687	11,081,059	16,701,084	122,327
22	NET EARNINGS	2,441,413	18,390,049	4,570,969	6,185,259	17,216
23	TELEPHONE PLANT IN SERVICE	32,985,625	203,852,262	44,537,608	60,268,461	179,785
24	TELEPHONE PLANT UNDER CONST.	8,219	842,005	747,031	1,010,759	2,197
25	PROPERTY HELD FOR FUT TEL USE	254	3,637	12,480	16,779	44
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	38,739	239,529	52,320	70,788	211
28	CASH WORKING CAPITAL	269,195	1,664,405	363,572	491,907	1,463
29	LESS-DEPRE. AND AMORT. RES.	6,960,207	43,663,643	5,101,652	6,905,048	29,968
30	-ACC. DEFD. INC. TAXES	7,098,131	18,112,973	4,631,754	6,267,557	18,195
31	-CUSTOMERS' DEPOSITS	95,358	589,617	128,789	174,250	518
32	AVERAGE NET INVESTMENT	19,148,337	144,235,604	35,850,736	48,511,839	135,027
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SDNC
STUDY YEAR: 1984

RUN DATE: 03/14/84
RUN TIME: 12.25.04

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IN
1	GROSS SERVICE REVENUES	4,847,942	0	24,754,762	179,245	237,245
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	4,847,942	0	24,754,762	179,245	237,245
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	4,847,942	0	24,754,762	179,245	237,245
7	MAINTENANCE	60,586	0	5,154,530	38,594	81,029
8	DEPRECIATION & AMORT.	58,287	0	6,041,454	61,301	55,629
9	TRAFFIC EXPENSES	3,108,040	0	154,907	0	0
10	COML. & MKTG. EXPS.	17,674	0	1,103,751	4,584	4,066
11	OPERATING RENTS	56,601	0	1,208,716	526	587
12	RELIEF AND PENSIONS	661,011	0	928,230	6,007	12,016
13	GENL. SVC. & LIC.	94,862	0	347,139	2,590	3,628
14	OTHER GENL. EXPENSES	394,031	0	1,294,649	7,529	11,220
15	MISC. INCOME CHARGES	485	0	30,302	208	221
16	INT. ON CUSTOMERS' DEP.	477	0	29,823	204	217
17	OTHER TAXES	252,523	0	1,246,121	8,414	10,962
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	4,704,577	0	17,539,621	129,957	181,236
20	FEDERAL TAXES ON INCOME	42,311	0	2,645,574	10,140	19,255
21	TOTAL EXPENSES	4,746,888	0	20,185,195	140,097	200,490
22	NET EARNINGS	101,054	0	4,569,567	31,149	36,755
23	TELEPHONE PLANT IN SERVICE	1,127,011	0	68,213,290	462,775	496,589
24	TELEPHONE PLANT UNDER CONST.	9,225	0	678,332	677	124
25	PROPERTY HELD FOR FUT TEL USE	241	0	10,309	18	4
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	1,282	0	80,132	550	583
28	CASH WORKING CAPITAL	8,906	0	556,835	3,818	4,053
29	LESS-DEPRE. AND AMORT. RES.	239,892	0	22,966,243	127,428	104,784
30	-ACC. DEFD. INC. TAXES	111,041	0	10,535,662	94,751	106,860
31	-CUSTOMERS' DEPOSITS	3,155	0	197,250	1,353	1,436
32	AVERAGE NET INVESTMENT	792,577	0	35,839,743	244,306	280,273
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBNC
STUDY YEAR: 1984

RUN DATE: 03/14/84
RUN TIME: 12.25.04

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	1,030,685	29,854,794	1,887,327	6,479,306	25,224
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	1,030,685	29,854,794	1,887,327	6,479,306	25,224
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	1,030,685	29,854,794	1,887,327	6,479,306	25,224
7	MAINTENANCE	246,864	8,629,980	341,541	8,963	1
8	DEPRECIATION & AMORT.	170,942	6,281,340	293,831	10,872	44
9	TRAFFIC EXPENSES	0	0	67,460	376,249	0
10	COML. & MKTG. EXPS.	30,038	281,335	86,898	2,974,532	15,274
11	OPERATING RENTS	24,896	478,285	45,342	21,745	36
12	RELIEF AND PENSIONS	41,462	1,344,571	68,458	747,719	3,209
13	GENL. SVC. & LIC.	12,348	523,411	21,975	131,889	665
14	OTHER GENL. EXPENSES	50,336	1,754,589	101,184	1,917,767	4,747
15	MISC. INCOME CHARGES	1,361	40,099	2,386	3	0
16	INT. ON CUSTOMERS' DEP.	1,340	43,745	2,348	3	0
17	OTHER TAXES	55,888	1,730,237	96,445	270,714	1,161
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	635,476	21,107,591	1,127,868	6,460,456	25,136
20	FEDERAL TAXES ON INCOME	118,852	3,861,058	208,286	292	1
21	TOTAL EXPENSES	754,328	24,968,649	1,336,154	6,460,748	25,137
22	NET EARNINGS	276,358	4,886,145	551,173	18,557	87
23	TELEPHONE PLANT IN SERVICE	3,063,424	73,784,956	5,370,361	237,825	1,107
24	TELEPHONE PLANT UNDER CONST.	12,653	1,179,126	90,080	133	12
25	PROPERTY HELD FOR FUT TEL USE	55	4,442	1,495	39	0
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	3,600	494,808	6,309	9	0
28	CASH WORKING CAPITAL	25,016	877,291	43,840	9	0
29	LESS-DEPRE. AND AMORT. RES.	656,127	24,789,300	615,127	62	0
30	-ACC. DEFD. INC. TAXES	272,249	12,885,833	558,500	71,827	336
31	-CUSTOMERS' DEPOSITS	8,861	342,707	15,529	20,670	101
					22	0
32	AVERAGE NET INVESTMENT	2,167,510	38,322,703	4,322,927	145,848	682
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBNC
STUDY YEAR: 1984

RUN DATE: 03/14/84
RUN TIME: 12.25.04

		INTEREXCH-MSG	INTEREXC-PL	RESERVED
1	GROSS SERVICE REVENUES	0	0	0
2	LESS-SETTLS. EXCEPT DRC	0	0	0
3	SERVICE REVENUES	0	0	0
4	MISC. OPERATING REVENUES	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0
6	TOTAL REVENUES	0	0	0
7	MAINTENANCE	0	0	0
8	DEPRECIATION & AMORT.	0	0	0
9	TRAFFIC EXPENSES	0	0	0
10	COML. & MKTG. EXPS.	0	0	0
11	OPERATING RENTS	0	0	0
12	RELIEF AND PENSIONS	0	0	0
13	GENL. SVC. & LIC.	0	0	0
14	OTHER GENL. EXPENSES	0	0	0
15	MISC. INCOME CHARGES	0	0	0
16	INT. ON CUSTOMERS' DEP.	0	0	0
17	OTHER TAXES	0	0	0
18	DELAYED INC. CR. & CH.	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	0	0	0
20	FEDERAL TAXES ON INCOME	0	0	0
21	TOTAL EXPENSES	0	0	0
22	NET EARNINGS	0	0	0
23	TELEPHONE PLANT IN SERVICE	0	0	0
24	TELEPHONE PLANT UNDER CONST.	0	0	0
25	PROPERTY HELD FOR FUT TEL USE	0	0	0
26	SATELLITE EARTH STATIONS	0	0	0
27	MATERIALS AND SUPPLIES	0	0	0
28	CASH WORKING CAPITAL	0	0	0
29	LESS-DEPRE. AND AMORT. RES.	0	0	0
30	-ACC. DEFD. INC. TAXES	0	0	0
31	-CUSTOMERS' DEPOSITS	0	0	0
32	AVERAGE NET INVESTMENT	0	0	0
33	EARNINGS RATIO	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SBGA
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 11.13.00

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	37,723	10,001	27,722	3,535	1,545	12,827	17,907	17,907	4.25
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	967	25,113	-24,146	-3,079	4	15,588	12,514	12,514	2.97
COMM LINE-IN	82,899	35,227	47,672	6,078	3,429	27,208	36,715	36,715	8.72
COMM LINE-BFP	447,319	119,751	327,569	41,765	18,680	78,231	138,676	138,676	32.95
LINE TERM	90,457	16,773	73,683	9,395	3,792	15,641	28,828	28,828	6.85
LOCAL SWITCH	117,624	21,804	95,820	12,217	4,853	25,112	42,182	42,182	10.02
INTERCEPT	537	102	435	56	22	185	262	262	0.06
INFORMATN	3,450	644	2,806	358	87	8,220	8,665	8,665	2.06
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	120,918	64,662	56,256	7,173	5,020	29,715	41,908	41,908	9.96
DAL-CPE	20	516	-496	-63	0	320	257	257	0.06
DAL-IN	1,703	724	979	125	70	559	754	754	0.18
DAL-BFP	9,164	2,454	6,710	856	383	1,589	2,828	2,828	0.67
SPECIAL ACCESS	155,859	81,848	74,012	9,436	8,386	44,881	62,703	62,703	14.90
BIL&COL-MSG-REC	11,102	2,059	9,043	1,153	461	1,925	3,538	3,538	0.84
BIL&COL-MSG-OTH	8,347	1,481	6,866	875	38	22,165	23,079	23,079	5.48
BIL&COL PL	27	5	22	3	0	70	73	73	0.02
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	1,008,117	303,162	704,955	89,882	46,731	284,277	420,890	420,890	100.00

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBGA
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 11.41.22

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	420,889,761	0	17,906,835	0	12,513,612
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	420,889,761	0	17,906,835	0	12,513,612
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	420,889,761	0	17,906,835	0	12,513,612
7	MAINTENANCE	93,740,000	0	3,909,457	0	5,173,525
8	DEPRECIATION & AMORT.	76,352,000	0	2,963,038	0	8,476,988
9	TRAFFIC EXPENSES	8,730,000	0	0	0	0
10	COML. & MKTG. EXPS.	24,925,000	0	3,225,695	0	840
11	OPERATING RENTS	6,890,000	0	98,276	0	16,041
12	RELIEF AND PENSIONS	19,856,000	0	797,588	0	727,101
13	GENL. SVC. & LIC.	6,006,000	0	207,013	0	367,133
14	OTHER GENL. EXPENSES	23,082,000	0	676,420	0	372,009
15	MISC. INCOME CHARGES	571,000	0	18,718	0	49
16	INT. ON CUSTOMERS' DEP.	428,000	0	11,130	0	29
17	OTHER TAXES	23,689,000	0	839,720	0	234,490
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	284,277,000	0	12,827,103	0	15,588,205
20	FEDERAL TAXES ON INCOME	46,731,000	0	1,545,196	0	4,038
21	TOTAL EXPENSES	331,008,000	0	14,372,299	0	15,592,243
22	NET EARNINGS	89,881,761	0	3,534,536	0	-3,078,631
23	TELEPHONE PLANT IN SERVICE	1,066,417,000	0	37,275,333	0	961,311
24	TELEPHONE PLANT UNDER CONST.	8,162,000	0	32,790	0	3,163
25	PROPERTY HELD FOR FUT TEL USE	174,000	0	5,048	0	1,444
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	2,042,000	0	41,727	0	109
28	CASH WORKING CAPITAL	11,322,000	0	367,928	0	961
29	LESS-DEPRE. AND AMORT. RES.	236,472,000	0	5,111,299	0	13,603,402
30	-ACC. DEFD. INC. TAXES	140,794,000	0	4,701,568	0	11,509,223
31	-CUSTOMERS' DEPOSITS	5,896,000	0	188,108	0	492
32	AVERAGE NET INVESTMENT	704,955,000	0	27,721,850	0	-24,146,128
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBGA
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 11.41.22

		COMM LINE-IN	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	36,715,348	138,676,281	28,827,658	42,182,276	262,018
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	36,715,348	138,676,281	28,827,658	42,182,276	262,018
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	36,715,348	138,676,281	28,827,658	42,182,276	262,018
7	MAINTENANCE	12,085,361	29,369,415	4,344,587	9,339,045	22,669
8	DEPRECIATION & AMORT.	8,444,524	20,337,626	4,242,946	5,506,724	23,268
9	TRAFFIC EXPENSES	0	0	884,383	1,143,928	76,861
10	COML. & MKTG. EXPS.	713,609	4,260,214	1,292,870	1,672,222	7,502
11	OPERATING RENTS	113,631	2,611,841	612,361	803,428	5,296
12	RELIEF AND PENSIONS	1,804,642	5,157,450	942,370	1,740,154	17,769
13	GENL. SVC. & LIC.	607,067	1,670,352	335,478	545,218	4,889
14	OTHER GENL. EXPENSES	1,519,676	5,996,197	1,284,896	1,927,898	12,916
15	MISC. INCOME CHARGES	41,543	226,280	45,453	58,790	264
16	INT. ON CUSTOMERS' DEP.	24,720	134,649	27,047	34,983	157
17	OTHER TAXES	1,052,918	8,467,343	1,669,192	2,340,382	13,949
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	27,207,691	78,231,367	15,680,783	25,111,971	184,740
20	FEDERAL TAXES ON INCOME	3,429,436	18,679,921	3,752,274	4,853,262	21,774
21	TOTAL EXPENSES	30,637,128	96,911,288	19,433,057	29,965,233	206,514
22	NET EARNINGS	6,078,220	41,764,993	9,394,601	12,217,042	55,504
23	TELEPHONE PLANT IN SERVICE	81,954,861	448,894,309	88,548,305	115,152,020	526,625
24	TELEPHONE PLANT UNDER CONST.	27,988	1,436,149	899,395	1,165,495	4,233
25	PROPERTY HELD FOR FUT TEL USE	7,104	36,447	14,153	19,331	303
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	92,609	504,436	101,327	131,058	588
28	CASH WORKING CAPITAL	816,587	4,447,897	893,458	1,155,616	5,185
29	LESS-DEPRE. AND AMORT. RES.	21,341,673	79,761,774	7,955,440	10,373,136	55,046
30	-ACC. DEFD. INC. TAXES	13,467,673	37,714,846	8,361,260	10,840,423	43,113
31	-CUSTOMERS' DEPOSITS	417,489	2,274,837	456,791	590,822	2,651
32	AVERAGE NET INVESTMENT	47,672,314	327,568,581	73,683,148	95,819,941	435,324
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                        ACCESS CHARGE ANALYSIS SYSTEM

                                      INTERSTATE MONTHLY REPORT NO. 1
                                                  TOTAL
S'UDY AREA: SBGA                                                                               RUN DATE: 02/27/84
STUDY YEAR: 1984                                                                               RUN TIME: 11.41.22

                                     INFORMATN        RESERVED    LOCAL TRANSPORT       DAL-CPE           DAL-IN
                                  ---------------  ---------------  ---------------  ---------------  ---------------

 1  GROSS SERVICE REVENUES            8,665,400             0         41,907,746          257,092          754,315
 2  LESS-SETTLS. EXCEPT DRC                   0             0                  0                0                0
 3  SERVICE REVENUES                  8,665,400             0         41,907,746          257,092          754,315
 4  MISC. OPERATING REVENUES                  0             0                  0                0                0
 5  LESS-UNCOLLECTIBLES                       0             0                  0                0                0
 6  TOTAL REVENUES                    8,665,400             0         41,907,746          257,092          754,315

 7  MAINTENANCE                          79,220             0          8,580,351          106,290          248,293
 8  DEPRECIATION & AMORT.               124,343             0         11,119,780          178,268          173,492
 9  TRAFFIC EXPENSES                  5,540,574             0            214,482                0                0
10  COML. & MKTG. EXPS.                  30,094             0          1,729,665               17           14,661
11  OPERATING RENTS                      51,899             0          1,519,234              338            2,335
12  RELIEF AND PENSIONS               1,163,976             0          1,611,213           14,938           37,076
13  GENL. SVC. & LIC.                   186,377             0            655,111            7,543           12,472
14  OTHER GENL. EXPENSES                606,065             0          1,834,561            7,643           31,222
15  MISC. INCOME CHARGES                  1,057             0             60,810                1              853
16  INT. ON CUSTOMERS' DEP.                 629             0             36,165                1              500
17  OTHER TAXES                         436,112             0          2,353,710            5,228           38,068
18  DELAYED INC. CR. & CH.                    0             0                  0                0                0

19  TOTAL EXPENSES & OTHER TAXES      8,220,345             0         29,715,102          320,259          558,901

20  FEDERAL TAXES ON INCOME              87,221             0          5,019,978               83           70,458

21  TOTAL EXPENSES                    8,307,567             0         34,735,080          320,342          629,439

22  NET EARNINGS                        357,834             0          7,172,666          -63,250          124,877


23  TELEPHONE PLANT IN SERVICE        3,406,220             0        118,737,141           19,750        1,683,759
24  TELEPHONE PLANT UNDER CONST.         16,772             0            815,535               65              575
25  PROPERTY HELD FOR FUT TEL USE         4,276             0             34,633               30              146
26  SATELLITE EARTH STATIONS                  0             0                  0                0                0
27  MATERIALS AND SUPPLIES                2,355             0            135,560                2            1,903
28  CASH WORKING CAPITAL                 20,768             0          1,195,313               20           16,777
29  LESS-DEPRE. AND AMORT. RES.         434,240             0         41,777,131          279,481          438,464
30      -ACC. DEFD. INC. TAXES          198,996             0         22,273,730          236,457          276,693
31      -CUSTOMERS' DEPOSITS             10,618             0            611,117               10            8,577

32  AVERAGE NET INVESTMENT            2,806,537             0         56,256,204         -496,081 ✓        979,426

33  EARNINGS RATIO                        .1275         .1275              .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBGA
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 11.41.22

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	2,827,771	62,703,295	3,538,146	23,079,110	72,858
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	2,827,771	62,703,295	3,538,146	23,079,110	72,858
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	2,827,771	62,703,295	3,538,146	23,079,110	72,858
7	MAINTENANCE	601,990	19,192,880	533,235	153,607	36
8	DEPRECIATION & AMORT.	416,670	13,367,349	520,758	255,474	752
9	TRAFFIC EXPENSES	0	0	108,548	769,224	0
10	COML. & MKTG. EXPS.	79,673	462,795	158,679	11,231,342	45,121
11	OPERATING RENTS	53,428	775,454	75,153	151,080	215
12	RELIEF AND PENSIONS	103,990	2,896,213	115,663	2,717,285	8,573
13	GENL. SVC. & LIC.	33,912	745,123	41,175	506,784	1,153
14	OTHER GENL. EXPENSES	119,308	3,145,497	157,606	5,380,843	10,842
15	MISC. INCOME CHARGES	4,630	106,501	5,579	464	1
16	INT. ON CUSTOMERS' DEP.	2,768	151,596	3,320	276	2
17	OTHER TAXES	172,931	4,037,880	204,867	998,923	3,286
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	1,589,301	44,881,289	1,924,581	22,165,302	69,980
20	FEDERAL TAXES ON INCOME	382,889	8,385,517	460,530	38,333	89
21	TOTAL EXPENSES	1,972,190	53,266,805	2,385,111	22,203,636	70,068
22	NET EARNINGS	855,582	9,436,490	1,153,035	875,474	2,789
23	TELEPHONE PLANT IN SERVICE	9,032,281	149,035,315	10,867,860	8,294,577	26,532
24	TELEPHONE PLANT UNDER CONST.	29,416	3,590,987	110,389	28,688	360
25	PROPERTY HELD FOR FUT TEL USE	738	34,964	1,736	13,602	45
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	10,340	1,006,503	12,436	1,035	11
28	CASH WORKING CAPITAL	91,170	2,191,511	109,657	9,128	23
29	LESS-DEPRE. AND AMORT. RES.	1,634,028	51,603,602	976,376	1,122,303	3,804
30	-ACC. DEFD. INC. TAXES	772,862	29,016,058	1,026,226	353,596	1,277
31	-CUSTOMERS' DEPOSITS	46,612	1,227,934	56,064	4,667	13
32	AVERAGE NET INVESTMENT	6,710,443	74,011,686	9,043,413	6,866,463	21,878
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                        ACCESS CHARGE ANALYSIS SYSTEM

                                    INTERSTATE MONTHLY REPORT NO. 1
STUDY AREA: SDGA                                  TOTAL
STUDY YEAR: 1984                                                                        RUN DATE: 02/27/84
                                                                                        RUN TIME: 11.41.22
                                     INTEREXCH-MSG    INTEREXC-PL      RESERVED
                                     --------------   --------------   --------------
  1  GROSS SERVICE REVENUES                       0                0                0
  2  LESS-SETTLS. EXCEPT DRC                      0                0                0
  3  SERVICE REVENUES                             0                0                0
  4  MISC. OPERATING REVENUES                     0                0                0
  5  LESS-UNCOLLECTIBLES                          0                0                0
  6  TOTAL REVENUES                               0                0                0

  7  MAINTENANCE                                  0                0                0
  8  DEPRECIATION & AMORT.                        0                0                0
  9  TRAFFIC EXPENSES                             0                0                0
 10  COML. & MKTG. EXPS.                          0                0                0
 11  OPERATING RENTS                              0                0                0
 12  RELIEF AND PENSIONS                          0                0                0
 13  GENL. SVC. & LIC.                            0                0                0
 14  OTHER GENL. EXPENSES                         0                0                0
 15  MISC. INCOME CHARGES                         0                0                0
 16  INT. ON CUSTOMERS' DEP.                       0                0                0
 17  OTHER TAXES                                  0                0                0
 18  DELAYED INC. CR. & CH.                       0                0                0

 19  TOTAL EXPENSES & OTHER TAXES                 0                0                0

 20  FEDERAL TAXES ON INCOME                      0                0                0

 21  TOTAL EXPENSES                               0                0                0

 22  NET EARNINGS                                 0                0                0


 23  TELEPHONE PLANT IN SERVICE                   0                0                0
 24  TELEPHONE PLANT UNDER CONST.                 0                0                0
 25  PROPERTY HELD FOR FUT TEL USE                0                0                0
 26  SATELLITE EARTH STATIONS                     0                0                0
 27  MATERIALS AND SUPPLIES                       0                0                0
 28  CASH WORKING CAPITAL                         0                0                0
 29  LESS-DEPRE. AND AMORT. RES.                  0                0                0
 30      -ACC. DEFD. INC. TAXES                   0                0                0
 31      -CUSTOMERS' DEPOSITS                     0                0                0

 32  AVERAGE NET INVESTMENT                       0                0                0

 33  EARNINGS RATIO                           .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SBFL
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.06.54

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	38,737	15,434	23,303	2,971	1,707	30,944	35,622	35,622	4.24
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	129,355	49,609	79,745	10,168	6,065	39,362	55,594	55,594	6.62
COMM LINE-IN	159,413	77,474	80,939	10,320	7,279	67,018	84,617	84,617	10.07
COMM LINE-BFP	997,616	275,440	722,177	92,078	45,704	223,785	361,566	361,566	43.05
LINE TERM	151,927	26,771	125,156	15,957	6,896	26,584	49,437	49,437	5.89
LOCAL SWITCH	154,308	27,192	127,116	16,207	6,993	35,792	58,992	58,992	7.02
INTERCEPT	538	106	432	55	24	216	294	294	0.04
INFORMATN	3,786	764	3,022	305	143	14,969	15,417	15,417	1.84
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	157,372	69,455	87,917	11,209	7,145	34,569	52,924	52,924	6.30
DAL-CPE	1,456	559	898	114	68	443	626	626	0.07
DAL-IN	1,783	872	911	116	82	755	953	953	0.11
DAL-BFP	11,211	3,096	8,115	1,035	514	2,507	4,055	4,055	0.48
SPECIAL ACCESS	221,706	93,291	128,415	16,373	11,590	51,570	79,533	79,533	9.47
BIL&COL-MSG-REC	22,518	3,968	18,550	2,365	1,022	3,940	7,327	7,327	0.87
BIL&COL-MSG-OTH	4,927	929	3,998	510	40	32,363	32,913	32,913	3.92
BIL&COL PL	10	2	8	1	0	65	66	66	0.01
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	2,055,664	644,961	1,410,703	179,865	95,271	564,801	839,937	839,937	100.00

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBFL
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.32.09

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	839,936,629	0	35,621,687	0	55,593,830
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	839,936,629	0	35,621,687	0	55,593,830
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	839,936,629	0	35,621,687	0	55,593,830
7	MAINTENANCE	206,446,000	0	10,460,356	0	13,267,313
8	DEPRECIATION & AMORT.	135,590,000	0	4,622,604	0	16,380,426
9	TRAFFIC EXPENSES	16,188,000	0	0	0	0
10	COML. & MKTG. EXPS.	43,732,000	0	9,714,423	0	1,113,274
11	OPERATING RENTS	9,117,000	0	140,666	0	137,058
12	RELIEF AND PENSIONS	44,251,000	0	2,407,193	0	2,273,405
13	GENL. SVC. & LIC.	11,706,000	0	625,278	0	771,079
14	OTHER GENL. EXPENSES	47,568,000	0	1,531,610	0	2,369,163
15	MISC. INCOME CHARGES	813,000	0	14,679	0	52,160
16	INT. ON CUSTOMERS' DEP.	860,000	0	15,510	0	55,112
17	OTHER TAXES	48,530,000	0	1,403,512	0	2,934,689
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	564,801,000	0	30,943,031	0	39,361,675
20	FEDERAL TAXES ON INCOME	95,271,000	0	1,706,711	0	6,064,627
21	TOTAL EXPENSES	660,072,000	0	32,650,542	0	45,426,302
22	NET EARNINGS	179,864,629	0	2,971,145	0	10,167,528
23	TELEPHONE PLANT IN SERVICE	2,013,024,000	0	30,139,616	0	127,724,316
24	TELEPHONE PLANT UNDER CONST.	21,323,000	0	235,352	0	379,926
25	PROPERTY HELD FOR FUT TEL USE	700,000	0	13,525	0	12,787
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	4,620,000	0	64,668	0	229,815
28	CASH WORKING CAPITAL	15,997,000	0	203,625	0	1,007,838
29	LESS-DEPRE. AND AMORT. RES.	360,300,086	0	8,509,294	0	24,795,216
30	-ACC. DEFD. INC. TAXES	270,301,914	0	6,670,866	0	23,913,256
31	-CUSTOMERS' DEPOSITS	14,359,000	0	253,528	0	900,891
32	AVERAGE NET INVESTMENT	1,410,703,000	0	23,303,899	0	79,745,320
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBFL
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.32.09

		COMM LINE-IH	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	84,616,923	361,566,252	49,437,407	58,992,253	294,301
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	84,616,923	361,566,252	49,437,407	58,992,253	294,381
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	84,616,923	361,566,252	49,437,407	58,992,253	294,381
7	MAINTENANCE	31,589,452	94,512,441	7,486,698	14,447,183	20,081
8	DEPRECIATION & AMORT.	18,904,437	83,462,192	6,648,156	6,746,968	17,687
9	TRAFFIC EXPENSES	0	0	2,018,075	2,046,612	103,392
10	COML. & MKTG. EXPS.	1,336,177	8,797,251	1,874,546	1,901,044	6,470
11	OPERATING RENTS	179,823	4,912,017	780,307	797,460	9,145
12	RELIEF AND PENSIONS	5,196,812	17,094,679	1,743,646	2,756,995	23,431
13	GENL. SVC. & LIC.	1,327,523	4,268,963	497,689	685,056	4,222
14	OTHER GENL. EXPENSES	4,053,820	17,824,730	2,341,462	2,059,402	14,596
15	MISC. INCOME CHARGES	62,601	393,083	59,309	60,147	205
16	INT. ON CUSTOMERS' DEP.	66,145	415,333	62,666	63,551	216
17	OTHER TAXES	4,301,703	22,104,248	3,071,614	3,427,281	16,890
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	67,018,492	223,784,937	26,584,167	35,791,699	215,535
20	FEDERAL TAXES ON INCOME	7,278,657	45,703,798	6,895,810	6,993,286	23,801
21	TOTAL EXPENSES	74,297,149	269,488,736	33,479,977	42,784,985	239,336
22	NET EARNINGS	10,319,774	92,077,516	15,957,430	16,207,267	55,045
23	TELEPHONE PLANT IN SERVICE	156,656,390	980,204,380	147,742,662	150,051,619	512,908
24	TELEPHONE PLANT UNDER CONST.	254,017	7,895,221	2,683,457	2,732,915	18,775
25	PROPERTY HELD FOR FUT TEL USE	17,713	189,022	93,913	96,186	1,355
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	275,792	1,731,743	261,286	264,980	902
28	CASH WORKING CAPITAL	1,209,584	7,595,164	1,145,962	1,162,161	3,955
29	LESS-DEPRE. AND AMORT. RES.	46,152,474	165,811,493	4,199,516	4,208,409	49,771
30	-ACC. DEFD. INC. TAXES	30,240,398	102,839,037	21,547,094	21,864,791	52,862
31	-CUSTOMERS' DEPOSITS	1,081,227	6,789,190	1,024,356	1,038,836	3,536
32	AVERAGE NET INVESTMENT	80,939,406	722,176,618	125,156,315	127,115,824	431,726
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBFL
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.32.09

	INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IN
1 GROSS SERVICE REVENUES	15,417,477	0	52,923,723	625,883	952,629
2 LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3 SERVICE REVENUES	15,417,477	0	52,923,723	625,883	952,629
4 MISC. OPERATING REVENUES	0	0	0	0	0
5 LESS-UNCOLLECTIBLES	0	0	0	0	0
6 TOTAL REVENUES	15,417,477	0	52,923,723	625,883	952,629
7 MAINTENANCE	108,107	0	10,867,638	149,365	355,638
8 DEPRECIATION & AMORT.	105,642	0	11,623,968	184,503	212,829
9 TRAFFIC EXPENSES	9,850,757	0	175,072	0	0
10 COML. & MKTG. EXPS.	38,956	0	1,941,916	12,533	15,043
11 OPERATING RENTS	82,878	0	1,351,991	1,543	2,024
12 RELIEF AND PENSIONS	2,400,490	0	2,053,247	25,594	58,506
13 GENL. SVC. & LIC.	298,004	0	662,853	8,681	14,945
14 OTHER GENL. EXPENSES	1,191,390	0	2,506,047	26,672	45,638
15 MISC. INCOME CHARGES	1,230	0	61,451	587	705
16 INT. ON CUSTOMERS' DEP.	1,300	0	64,929	628	745
17 OTHER TAXES	810,328	0	3,260,220	33,039	48,429
18 DELAYED INC. CR. & CH.	0	0	0	0	0
19 TOTAL EXPENSES & OTHER TAXES	14,889,082	0	34,569,331	443,139	754,503
20 FEDERAL TAXES ON INCOME	143,067	0	7,144,982	68,276	81,944
21 TOTAL EXPENSES	15,032,149	0	41,714,313	511,415	836,447
22 NET EARNINGS	385,328	0	11,209,410	114,467	116,181
23 TELEPHONE PLANT IN SERVICE	3,585,027	0	153,112,896	1,437,937	1,763,658
24 TELEPHONE PLANT UNDER CONST.	159,615	0	2,681,721	4,277	2,860
25 PROPERTY HELD FOR FUT TEL USE	12,530	0	118,853	144	199
26 SATELLITE EARTH STATIONS	0	0	0	0	0
27 MATERIALS AND SUPPLIES	5,421	0	270,866	2,587	3,105
28 CASH WORKING CAPITAL	23,775	0	1,187,392	11,346	13,618
29 LESS-DEPRE. AND AMORT. RES.	442,896	0	44,415,131	279,148	519,591
30 -ACC. DEFD. INC. TAXES	300,039	0	23,978,255	269,219	340,450
31 -CUSTOMERS' DEPOSITS	21,252	0	1,061,398	10,142	12,173
32 AVERAGE NET INVESTMENT	3,022,179	0	87,916,944	897,783	911,227
33 EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

INTERSTATE MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SBFL
STUDY YEAR: 1984

RUN DATE: 02/27/84
RUN TIME: 12.32.09

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	4,055,238	79,532,722	7,327,352	32,912,663	66,210
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	4,055,238	79,532,722	7,327,352	32,912,663	66,210
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	0	0	0	0	0
6	TOTAL REVENUES	4,055,238	79,532,722	7,327,352	32,912,663	66,210
7	MAINTENANCE	1,062,375	20,900,858	1,109,640	100,827	28
8	DEPRECIATION & AMORT.	608,898	14,979,664	985,356	106,466	204
9	TRAFFIC EXPENSES	0	0	299,110	1,694,982	0
10	COML. & MKTG. EXPS.	94,293	490,544	277,835	16,078,185	39,511
11	OPERATING RENTS	55,166	422,649	115,650	128,559	66
12	RELIEF AND PENSIONS	191,048	3,463,518	258,435	4,295,107	8,894
13	GENL. SVC. & LIC.	47,813	1,762,347	73,765	655,295	2,490
14	OTHER GENL. EXPENSES	198,153	4,349,020	347,040	7,898,277	10,979
15	MISC. INCOME CHARGES	4,418	93,290	8,790	345	0
16	INT. ON CUSTOMERS' DEP.	4,668	99,552	9,288	364	0
17	OTHER TAXES	248,074	5,008,240	455,258	1,404,354	2,921
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	2,506,905	51,569,682	3,940,168	32,362,761	65,094
20	FEDERAL TAXES ON INCOME	513,650	11,590,176	1,022,060	40,098	55
21	TOTAL EXPENSES	3,020,555	63,159,858	4,962,228	32,402,860	65,149
22	NET EARNINGS	1,034,684	16,372,864	2,365,125	509,803	1,062
23	TELEPHONE PLANT IN SERVICE	11,015,137	214,512,261 ✓	21,897,623	4,657,802	9,768
24	TELEPHONE PLANT UNDER CONST.	80,660	3,546,422	397,724	241,400	656
25	PROPERTY HELD FOR FUT TEL USE	2,128	107,087	13,919	19,796	43
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	19,462	1,449,119	30,726	1,519	7
28	CASH WORKING CAPITAL	85,359	2,090,699	169,848	6,664	10
29	LESS-DEPRE. AND AMORT. RES	1,863,400	57,715,148	622,417	634,697	1,407
30	-ACC. DEFD. INC. TAXES	1,155,800	33,647,439	3,193,603	288,071	742
31	-CUSTOMERS' DEPOSITS	76,301	1,928,380	151,825	5,957	9
32	AVERAGE NET INVESTMENT	8,115,165	128,414,620	18,549,997	3,998,457	8,326
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                         ACCESS CHARGE ANALYSIS SYSTEM

                                      INTERSTATE MONTHLY REPORT NO. 1
STUDY AREA: SBFL                                    TOTAL
STUDY YEAR: 1984                                                                               RUN DATE: 02/27/84
                                                                                               RUN TIME: 12.32.09
                                     INTEREXCH-MSG    INTEREXC-PL       RESERVED
                                     -------------    -----------    -------------

  1 GROSS SERVICE REVENUES                       0              0                0
  2 LESS-SETTLS. EXCEPT DRC                      0              0                0
  3 SERVICE REVENUES                             0              0                0
  4 MISC. OPERATING REVENUES                     0              0                0
  5 LESS-UNCOLLECTIBLES                          0              0                0
  6 TOTAL REVENUES                               0              0                0

  7 MAINTENANCE                                  0              0                0
  8 DEPRECIATION & AMORT.                        0              0                0
  9 TRAFFIC EXPENSES                             0              0                0
 10 COML. & MKTG. EXPS.                          0              0                0
 11 OPERATING RENTS                              0              0                0
 12 RELIEF AND PENSIONS                          0              0                0
 13 GENL. SVC. & LIC.                            0              0                0
 14 OTHER GENL. EXPENSES                         0              0                0
 15 MISC. INCOME CHARGES                         0              0                0
 16 INT. ON CUSTOMERS' DEP.                      0              0                0
 17 OTHER TAXES                                  0              0                0
 18 DELAYED INC. CR. & CH.                       0              0                0

 19 TOTAL EXPENSES & OTHER TAXES                 0              0                0

 20 FEDERAL TAXES ON INCOME                      0              0                0

 21 TOTAL EXPENSES                               0              0                0

 22 NET EARNINGS                                 0              0                0


 23 TELEPHONE PLANT IN SERVICE                   0              0                0
 24 TELEPHONE PLANT UNDER CONST.                 0              0                0
 25 PROPERTY HELD FOR FUT TEL USE                0              0                0
 26 SATELLITE EARTH STATIONS                     0              0                0
 27 MATERIALS AND SUPPLIES                       0              0                0
 28 CASH WORKING CAPITAL                         0              0                0
 29 LESS-DEPRE. AND AMORT. RES.                  0              0                0
 30    -ACC. DEFD. INC. TAXES                    0              0                0
 31    -CUSTOMERS' DEPOSITS                      0              0                0

 32 AVERAGE NET INVESTMENT                       0              0                0

 33 EARNINGS RATIO                           .1275          .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SCAL
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.56.39

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	7,672	2,525	5,147	656	290	3,932	4,879	4,897	2.45
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	25,930	10,936	14,994	1,912	1,065	6,768	9,745	9,813	4.91
COMM LINE-IW	34,643	14,880	19,763	2,520	1,407	13,410	17,337	17,426	8.72
COMM LINE-BFP	244,228	73,143	171,085	21,813	9,971	53,451	85,235	85,871	42.95
LINE TERM	35,340	12,915	22,424	2,859	1,396	9,514	13,769	13,858	6.93
LOCAL SWITCH	40,634	14,851	25,783	3,287	1,605	10,937	15,830	15,932	7.97
INTERCEPT	356	123	233	30	14	91	135	135	0.07
INFORMATN	2,873	743	2,131	272	73	5,391	5,736	5,740	2.87
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	35,405	13,754	21,651	2,761	1,406	9,080	13,247	13,337	6.67
DAL-CPE	345	146	200	25	14	90	130	131	0.07
DAL-IW	461	198	263	34	19	178	231	232	0.12
DAL-BFP	3,298	987	2,310	295	135	718	1,147	1,156	0.58
SPECIAL ACCESS	55,214	23,133	32,081	4,090	2,702	14,411	21,203	21,237	10.62
BIL&COL-MSG-REC	2,919	1,067	1,852	236	115	786	1,137	1,137	0.57
BIL&COL-MSG-OTH	3,909	862	3,047	389	40	8,607	9,035	9,035	4.52
BIL&COL PL	0	0	0	0	0	2	2	2	0.00
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	493,227	170,262	322,964	41,178	20,253	137,367	198,798	199,941	100.00

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCAL
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.36.02

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	199,940,725	0	4,897,115	0	9,813,385
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	199,940,725	0	4,897,115	0	9,813,385
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	1,142,796	0	18,504	0	67,933
6	TOTAL REVENUES	198,797,929	0	4,878,611	0	9,745,451
7	MAINTENANCE	38,941,845	0	1,172,039	0	2,331,521
8	DEPRECIATION & AMORT.	43,696,591	0	743,259	0	2,651,723
9	TRAFFIC EXPENSES	5,030,899	0	0	0	0
10	COML. & MKTG. EXPS.	10,877,877	0	1,257,107	0	255,054
11	OPERATING RENTS	4,695,970	0	55,619	0	40,568
12	RELIEF AND PENSIONS	9,969,923	0	259,353	0	419,217
13	GENL. SVC. & LIC.	1,876,988	0	51,924	0	86,702
14	OTHER GENL. EXPENSES	11,587,905	0	201,126	0	451,658
15	MISC. INCOME CHARGES	161,115	0	2,364	0	8,678
16	INT. ON CUSTOMERS' DEP.	163,999	0	2,285	0	8,385
17	OTHER TAXES	10,363,943	0	187,086	0	514,718
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	137,367,056	0	3,932,166	0	6,768,227
20	FEDERAL TAXES ON INCOME	20,252,907	0	290,218	0	1,065,480
21	TOTAL EXPENSES	157,619,963	0	4,222,384	0	7,833,707
22	NET EARNINGS	41,177,966	0	656,227	0	1,911,744
23	TELEPHONE PLANT IN SERVICE	478,853,001	0	7,529,575	0	25,472,227
24	TELEPHONE PLANT UNDER CONST.	10,223,901	0	84,623	0	247,927
25	PROPERTY HELD FOR FUT TEL USE	27,000	0	306	0	49
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	956,996	0	11,716	0	43,014
28	CASH WORKING CAPITAL	3,165,985	0	45,556	0	167,251
29	LESS-DEPRE. AND AMORT. RES.	102,510,590	0	1,442,948	0	5,897,594
30	-ACC. DEFD. INC. TAXES	64,965,858	0	1,043,250	0	4,896,724
31	-CUSTOMERS' DEPOSITS	2,785,938	0	38,700	0	142,080
32	AVERAGE NET INVESTMENT	322,964,448	0	5,146,878	0	14,994,070
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCAL
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.36.02

		COMM LINE-IN	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	17,426,399	85,871,178	13,858,367	15,932,211	135,452
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	17,426,399	85,871,178	13,858,367	15,932,211	135,452
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	89,701	635,733	89,009	102,345	900
6	TOTAL REVENUES	17,336,699	85,235,445	13,769,358	15,829,867	134,552
7	MAINTENANCE	5,170,048	17,204,472	2,216,851	2,546,882	20,292
8	DEPRECIATION & AMORT.	5,191,779	17,951,189	3,708,903	4,264,870	33,762
9	TRAFFIC EXPENSES	0	0	539,293	620,169	6,246
10	CCML. & MKTG. EXPS.	336,779	2,517,926	507,617	675,659	5,942
11	OPERATING RENTS	65,579	2,573,229	376,149	432,430	4,653
12	RELIEF AND PENSIONS	891,694	3,582,067	503,793	670,948	5,461
13	GENL. SVC. & LIC.	175,145	675,667	122,421	140,731	1,164
14	OTHER GENL. EXPENSES	778,995	4,068,920	672,361	772,959	6,179
15	MISC. INCOME CHARGES	11,459	81,212	11,370	13,074	115
16	INT. ON CUSTOMERS' DEP.	11,076	78,497	10,990	12,637	111
17	OTHER TAXES	777,515	4,718,003	684,465	786,928	6,782
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	13,410,069	53,451,180	9,514,215	10,937,286	90,707
20	FEDERAL TAXES ON INCOME	1,406,886	9,970,954	1,396,027	1,605,193	14,116
21	TOTAL EXPENSES	14,816,954	63,422,134	10,910,242	12,542,479	104,823
22	NET EARNINGS	2,519,744	21,813,311	2,859,116	3,287,388	29,730
23	TELEPHONE PLANT IN SERVICE	34,202,785	238,998,687	33,571,637	38,601,321	338,029
24	TELEPHONE PLANT UNDER CONST.	162,647	3,239,610	1,492,353	1,715,940	14,968
25	PROPERTY HELD FOR FUT TEL USE	81	21,818	218	250	4
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	56,796	402,529	56,358	64,802	570
28	CASH WORKING CAPITAL	220,842	1,565,162	219,137	251,971	2,216
29	LESS-DEPRE. AND AMORT. RES.	7,717,893	44,530,735	8,002,807	9,202,119	76,572
30	-ACC. DEFD. INC. TAXES	6,974,950	27,282,615	4,726,295	5,434,681	44,157
31	-CUSTOMERS' DEPOSITS	187,606	1,329,609	186,158	214,050	1,882
32	AVERAGE NET INVESTMENT	19,762,702	171,084,797	22,424,442	25,783,434	233,175
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCAL
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.36.02

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IW
1	GROSS SERVICE REVENUES	5,740,435	0	13,336,538	130,603	231,922
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	5,740,435	0	13,336,538	130,603	231,922
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	4,661	0	89,491	904	1,194
6	TOTAL REVENUES	5,735,774	0	13,247,047	129,699	230,728
7	MAINTENANCE	76,593	0	2,663,741	31,029	68,806
8	DEPRECIATION & AMORT.	161,297	0	3,227,031	35,291	69,096
9	TRAFFIC EXPENSES	3,298,682	0	47,068	0	0
10	COML. & MKTG. EXPS.	272,879	0	590,912	3,394	4,482
11	OPERATING RENTS	65,229	0	477,010	540	873
12	RELIEF AND PENSIONS	767,930	0	571,835	5,579	11,867
13	GENL. SVC. & LIC.	71,278	0	116,741	1,154	2,331
14	OTHER GENL. EXPENSES	425,926	0	678,521	6,011	10,367
15	MISC. INCOME CHARGES	595	0	11,448	115	153
16	INT. ON CUSTOMERS' DEP.	575	0	11,075	112	147
17	OTHER TAXES	250,036	0	684,996	6,850	10,348
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	5,391,021	0	9,080,379	90,076	178,470
20	FEDERAL TAXES ON INCOME	73,102	0	1,406,158	14,180	18,724
21	TOTAL EXPENSES	5,464,123	0	10,486,537	104,256	197,194
22	NET EARNINGS	271,651	0	2,760,510	25,443	33,534
23	TELEPHONE PLANT IN SERVICE	2,736,509	0	33,804,227	339,001	455,193
24	TELEPHONE PLANT UNDER CONST.	122,280	0	1,322,119	3,300	2,165
25	PROPERTY HELD FOR FUT TEL USE	81	0	728	1	1
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	2,951	0	56,931	572	756
28	CASH WORKING CAPITAL	11,475	0	220,712	2,226	2,939
29	LESS-DEPRE. AND AMORT. RES.	497,230	0	8,914,372	78,489	102,715
30	-ACC. DEFD. INC. TAXES	235,725	0	4,651,673	65,169	92,827
31	-CUSTOMERS' DEPOSITS	9,748	0	187,609	1,891	2,497
32	AVERAGE NET INVESTMENT	2,130,593	0	21,651,062	199,551	263,015
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                         ACCESS CHARGE ANALYSIS SYSTEM

                                         ACCESS MONTHLY REPORT NO. 1
                                                   TOTAL
STUDY AREA: SCAL                                                                                RUN DATE: 02/29/84
STUDY YEAR: 1984                                                                                RUN TIME: 20.36.02

                                      DAL-BFP     SPECIAL ACCESS   BIL-MSG-REC    BIL-MSG-OTH      BIL-PL
                               ---------------   ---------------  ------------   ------------   ------------

 1  GROSS SERVICE REVENUES           1,155,901        21,236,671     1,137,173      9,035,191          2,185
 2  LESS-SETTLS. EXCEPT DRC                  0                 0             0              0              0
 3  SERVICE REVENUES                 1,155,901        21,236,671     1,137,173      9,035,191          2,185
 4  MISC. OPERATING REVENUES                 0                 0             0              0              0
 5  LESS-UNCOLLECTIBLES                  8,507            33,836             0              0              0
 6  TOTAL REVENUES                   1,147,314        21,202,836     1,137,173      9,035,191          2,185

 7  MAINTENANCE                        232,154         4,958,485       183,089         65,842              0
 8  DEPRECIATION & AMORT.              242,271         4,950,596       306,318        159,193             12
 9  TRAFFIC EXPENSES                         0                 0        44,543        474,898              0
10  COML. & MKTG. EXPS.                 32,239           312,043        48,528      3,977,219             96
11  OPERATING RENTS                     34,734           433,984        31,059        104,310              5
12  RELIEF AND PENSIONS                 47,884           919,949        48,216      1,183,919            207
13  GENL. SVC. & LIC.                    9,075           293,342        10,111        114,149             53
14  OTHER GENL. EXPENSES                54,017         1,250,657        55,531      2,152,961          1,717
15  MISC. INCOME CHARGES                 1,097            18,170           939            326              0
16  INT. ON CUSTOMERS' DEP.              1,060            25,822           908            315              0
17  OTHER TAXES                         63,574         1,242,530        56,527        373,523             62
18  DELAYED INC. CR. & CH.                   0                 0             0              0              0

19  TOTAL EXPENSES & OTHER TAXES       718,106        14,410,579       785,768      8,606,655          2,152

20  FEDERAL TAXES ON INCOME            134,677         2,701,901       115,290         40,002              1

21  TOTAL EXPENSES                     852,783        17,112,480       901,058      8,646,657          2,153

22  NET EARNINGS                       294,531         4,090,356       236,114        388,534             32


23  TELEPHONE PLANT IN SERVICE       3,226,929        53,072,716     2,772,504      3,731,353            309
24  TELEPHONE PLANT UNDER CONST.        43,705         1,479,106       123,246        169,898             15
25  PROPERTY HELD FOR FUT TEL USE          295             3,013            18            138              0
26  SATELLITE EARTH STATIONS                 0                 0             0              0              0
27  MATERIALS AND SUPPLIES               5,437           248,295         4,654          1,615              0
28  CASH WORKING CAPITAL                21,141           410,951        18,097          6,279              0
29  LESS-DEPRE. AND AMORT. RES.        601,233        14,171,091       660,931        613,758             51
30       -ACC. DEFD. INC. TAXES        368,264         8,516,307       390,333        242,865             20
31       -CUSTOMERS' DEPOSITS           17,959           445,491        15,374          5,334              0

32  AVERAGE NET INVESTMENT           2,310,051        32,081,222     1,851,876      3,847,326            253

33  EARNINGS RATIO                       .1275             .1275         .1275          .1275          .1275
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                                      ACCESS CHARGE ANALYSIS SYSTEM

                                      ACCESS MONTHLY REPORT NO. 1
STUDY AREA: SCAL                                    TOTAL
STUDY YEAR: 1984                                                                                 RUN DATE: 02/29/84
                                                                                                 RUN TIME: 20.36.02
                                   INTEREXCH-MSG     INTEREXC-PL       RESERVED
                                   -------------     -----------       --------

 1  GROSS SERVICE REVENUES                     0               0               0
 2  LESS-SETTLS. EXCEPT DRC                    0               0               0
 3  SERVICE REVENUES                           0               0               0
 4  MISC. OPERATING REVENUES                   0               0               0
 5  LESS-UNCOLLECTIBLES                        0               0               0
 6  TOTAL REVENUES                             0               0               0

 7  MAINTENANCE                                0               0               0
 8  DEPRECIATION & AMORT.                      0               0               0
 9  TRAFFIC EXPENSES                           0               0               0
10  COML. & MKTG. EXPS.                        0               0               0
11  OPERATING RENTS                            0               0               0
12  RELIEF AND PENSIONS                        0               0               0
13  GENL. SVC. & LIC.                          0               0               0
14  OTHER GENL. EXPENSES                       0               0               0
15  MISC. INCOME CHARGES                       0               0               0
16  INT. ON CUSTOMERS' DEP.                    0               0               0
17  OTHER TAXES                                0               0               0
18  DELAYED INC. CR. & CH.                     0               0               0

19  TOTAL EXPENSES & OTHER TAXES               0               0               0

20  FEDERAL TAXES ON INCOME                    0               0               0

21  TOTAL EXPENSES                             0               0               0

22  NET EARNINGS                               0               0               0


23  TELEPHONE PLANT IN SERVICE                 0               0               0
24  TELEPHONE PLANT UNDER CONST.               0               0               0
25  PROPERTY HELD FOR FUT TEL USE              0               0               0
26  SATELLITE EARTH STATIONS                   0               0               0
27  MATERIALS AND SUPPLIES                     0               0               0
28  CASH WORKING CAPITAL                       0               0               0
29  LESS-DEPRE. AND AMORT. RES.                0               0               0
30      -ACC. DEFD. INC. TAXES                 0               0               0
31      -CUSTOMERS' DEPOSITS                   0               0               0

32  AVERAGE NET INVESTMENT                     0               0               0

33  EARNINGS RATIO                         .1275           .1275           .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SCKY
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.30.20

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	5,638	2,189	3,449	440	217	3,313	3,969	3,982	3.19
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	12,908	5,977	6,931	884	517	3,921	5,322	5,353	4.28
COMM LINE-IW	22,871	9,508	13,363	1,704	901	8,893	11,498	11,552	9.24
COMM LINE-BFP	143,491	46,628	96,863	12,350	5,652	32,428	50,430	50,766	40.62
LINE TERM	21,318	7,624	13,694	1,746	819	5,827	8,392	8,441	6.75
LOCAL SWITCH	26,927	9,630	17,298	2,205	1,034	7,721	10,961	11,022	8.82
INTERCEPT	120	41	79	10	5	31	46	46	0.04
INFORMATN	1,039	316	723	92	34	3,041	3,167	3,169	2.54
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	28,870	13,056	15,814	2,016	1,112	7,962	11,091	11,157	8.93
DAL-CPE	138	64	74	9	6	42	57	57	0.05
DAL-IW	245	102	143	18	10	95	123	124	0.10
DAL-BFP	1,562	508	1,055	134	62	350	546	550	0.44
SPECIAL ACCESS	34,673	15,044	19,628	2,503	1,574	8,803	12,879	12,895	10.32
BIL&COL-MSG-REC	1,762	630	1,132	144	68	482	694	694	0.56
BIL&COL-MSG-OTH	1,187	330	858	109	24	5,029	5,163	5,163	4.13
BIL&COL PL	0	0	0	0	0	2	2	2	0.00
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	302,751	111,648	191,103	24,366	12,033	87,941	124,340	124,973	100.00

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCKY
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.13.19

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	124,973,171	0	3,982,340	0	5,352,638
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	124,973,171	0	3,982,340	0	5,352,638
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	632,980	0	12,897	0	30,773
6	TOTAL REVENUES	124,340,191	0	3,969,442	0	5,321,865
7	MAINTENANCE	26,180,972	0	938,618	0	1,296,534
8	DEPRECIATION & AMORT.	27,180,963	0	657,934	0	1,630,051
9	TRAFFIC EXPENSES	3,412,094	0	0	0	0
10	COML. & MKTG. EXPS.	6,790,689	0	1,054,207	0	114,730
11	OPERATING RENTS	1,213,069	0	17,242	0	7,557
12	RELIEF AND PENSIONS	7,184,732	0	250,779	0	270,711
13	GENL. SVC. & LIC.	1,262,851	0	46,831	0	54,160
14	OTHER GENL. EXPENSES	8,199,289	0	194,390	0	276,813
15	MISC. INCOME CHARGES	80,982	0	1,508	0	3,597
16	INT. ON CUSTOMERS' DEP.	103,739	0	1,838	0	4,386
17	OTHER TAXES	6,331,956	0	149,520	0	262,424
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	87,941,335	0	3,312,946	0	3,920,964
20	FEDERAL TAXES ON INCOME	12,033,209	0	216,744	0	517,156
21	TOTAL EXPENSES	99,974,544	0	3,529,691	0	4,438,120
22	NET EARNINGS	24,365,646	0	439,752	0	883,745
23	TELEPHONE PLANT IN SERVICE	296,220,727	0	5,566,912	0	12,742,964
24	TELEPHONE PLANT UNDER CONST.	3,720,970	0	23,346	0	52,754
25	PROPERTY HELD FOR FUT TEL USE	[illegible]7,866	0	459	0	342
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	444,322	0	4,772	0	11,385
28	CASH WORKING CAPITAL	2,336,995	0	42,272	0	100,863
29	LESS-DEPRE. AND AMORT. RES.	69,421,181	0	1,136,780	0	2,856,047
30	-ACC. DEFD. INC. TAXES	40,451,043	0	1,020,574	0	3,046,066
31	-CUSTOMERS' DEPOSITS	1,775,543	0	31,375	0	74,862
32	AVERAGE NET INVESTMENT	191,103,113	0	3,449,033	0	6,931,333
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCKY
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.13.19

		COMM LINE-IN	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	11,551,753	50,766,331	8,441,010	11,022,097	45,959
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	11,551,753	50,766,331	8,441,010	11,022,097	45,959
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	53,631	336,297	48,733	61,522	274
6	TOTAL REVENUES	11,498,122	50,430,034	8,392,277	10,960,575	45,684
7	MAINTENANCE	3,607,659	11,245,737	1,385,988	2,019,026	6,966
8	DEPRECIATION & AMORT.	3,038,584	10,607,354	2,056,808	2,597,359	10,251
9	TRAFFIC EXPENSES	0	0	428,167	540,620	2,931
10	COML. & MKTG. EXPS.	199,949	1,389,275	408,799	516,082	2,302
11	OPERATING RENTS	14,987	656,192	94,932	120,106	941
12	RELIEF AND PENSIONS	732,567	2,479,621	435,747	598,131	2,280
13	GENL. SVC. & LIC.	123,806	439,581	80,083	106,298	426
14	OTHER GENL. EXPENSES	631,640	2,788,723	506,447	666,870	2,578
15	MISC. INCOME CHARGES	6,270	39,314	5,697	7,192	32
16	INT. ON CUSTOMERS' DEP.	7,644	47,933	6,946	8,769	39
17	OTHER TAXES	529,940	2,734,678	417,749	540,751	2,303
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	8,893,046	32,428,409	5,827,365	7,721,204	31,049
20	FEDERAL TAXES ON INCOME	901,291	5,651,627	818,982	1,033,910	4,612
21	TOTAL EXPENSES	9,794,338	38,080,036	6,646,346	8,755,114	35,661
22	NET EARNINGS	-1,703,784	12,349,998	1,745,931	2,205,461	10,023
23	TELEPHONE PLANT IN SERVICE	22,646,747	141,394,356	20,534,814	25,938,070	115,495
24	TELEPHONE PLANT UNDER CONST.	27,933	860,807	602,454	760,976	3,351
25	PROPERTY HELD FOR FUT TEL USE	685	9,185	3,047	3,859	39
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	19,842	124,420	18,030	22,761	102
28	CASH WORKING CAPITAL	175,782	1,102,255	159,729	201,647	899
29	LESS-DEPRE. AND AMORT. RES.	4,183,667	30,857,309	4,625,432	5,842,352	25,734
30	-ACC. DEFD. INC. TAXES	5,193,838	14,952,903	2,680,512	3,637,561	14,873
31	-CUSTOMERS' DEPOSITS	130,468	818,109	118,553	149,665	668
32	AVERAGE NET INVESTMENT	13,363,016	96,862,731	13,693,575	17,297,735	78,612
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

STUDY AREA: SCKY
STUDY YEAR: 1984

ACCESS MONTHLY REPORT NO. 1
TOTAL

RUN DATE: 02/29/84
RUN TIME: 20.13.19

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IM
1	GROSS SERVICE REVENUES	3,169,156	0	11,157,309	57,383	123,841
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	3,169,156	0	11,157,309	57,383	123,841
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	2,035	0	66,197	330	575
6	TOTAL REVENUES	3,167,122	0	11,091,112	57,053	123,266
7	MAINTENANCE	37,044	0	2,343,150	13,900	38,676
8	DEPRECIATION & AMORT.	57,482	0	2,953,052	17,475	32,575
9	TRAFFIC EXPENSES	1,886,376	0	55,391	0	0
10	COML. & MKTG. EXPS.	154,550	0	555,298	1,230	2,144
11	OPERATING RENTS	17,847	0	127,314	81	161
12	RELIEF AND PENSIONS	445,876	0	566,652	2,902	7,853
13	GENL. SVC. & LIC.	42,992	0	109,577	581	1,327
14	OTHER GENL. EXPENSES	261,411	0	674,329	2,968	6,771
15	MISC. INCOME CHARGES	238	0	7,739	39	67
16	INT. ON CUSTOMERS' DEP.	290	0	9,435	47	82
17	OTHER TAXES	136,655	0	560,430	2,813	5,681
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	3,040,761	0	7,962,367	42,035	95,338
20	FEDERAL TAXES ON INCOME	34,191	0	1,112,475	5,544	9,662
21	TOTAL EXPENSES	3,074,952	0	9,074,842	47,579	105,000
22	NET EARNINGS	92,170	0	2,016,270	9,474	18,265
23	TELEPHONE PLANT IN SERVICE	1,002,528	0	27,886,697	136,611	242,785
24	TELEPHONE PLANT UNDER CONST.	28,395	0	737,507	566	299
25	PROPERTY HELD FOR FUT TEL USE	856	0	4,129	4	7
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	753	0	24,491	122	213
28	CASH WORKING CAPITAL	6,668	0	216,969	1,081	1,884
29	LESS-DEPRE. AND AMORT. RES.	216,493	0	9,000,056	30,618	44,851
30	-ACC. DEFD. INC. TAXES	94,056	0	3,894,821	32,655	55,681
31	-CUSTOMERS' DEPOSITS	4,949	0	161,038	803	1,399
32	AVERAGE NET INVESTMENT	722,902	0	15,813,879	74,307	143,258
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCKY
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.13.19

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	549,770	12,895,438	693,869	5,162,662	1,616
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	549,770	12,895,438	693,869	5,162,662	1,616
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	3,662	16,053	0	0	0
6	TOTAL REVENUES	546,108	12,879,384	693,869	5,162,662	1,616
7	MAINTENANCE	122,363	2,982,612	114,597	28,101	0
8	DEPRECIATION & AMORT.	115,442	3,189,997	170,063	46,531	3
9	TRAFFIC EXPENSES	0	3,051	35,405	460,153	0
10	COML. & MKTG. EXPS.	13,654	163,426	33,798	2,181,096	69
11	OPERATING RENTS	7,136	114,480	7,844	26,250	1
12	RELIEF AND PENSIONS	26,564	571,391	36,029	757,463	164
13	GENL. SVC. & LIC.	4,744	174,626	6,621	71,162	37
14	OTHER GENL. EXPENSES	29,578	877,708	41,875	1,235,900	1,288
15	MISC. INCOME CHARGES	428	8,225	471	167	0
16	INT. ON CUSTOMERS' DEP.	522	15,030	574	203	0
17	OTHER TAXES	29,657	702,437	34,539	222,332	46
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	350,087	8,802,982	481,816	5,029,358	1,608
20	FEDERAL TAXES ON INCOME	61,548	1,573,801	67,710	23,954	1
21	TOTAL EXPENSES	411,636	10,376,783	549,525	5,053,312	1,609
22	NET EARNINGS	134,472	2,502,601	144,343	109,350	7
23	TELEPHONE PLANT IN SERVICE	1,839,483	33,626,960	1,697,724	1,148,477	72
24	TELEPHONE PLANT UNDER CONST.	9,361	530,915	49,809	32,496	2
25	PROPERTY HELD FOR FUT TEL USE	99	3,614	252	1,290	0
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	1,355	214,059	1,491	527	0
28	CASH WORKING CAPITAL	12,804	297,064	13,206	4,672	0
29	LESS-DEPRE. AND AMORT. RES.	336,026	9,639,918	302,413	243,470	15
30	-ACC. DEFD. INC. TAXES	162,685	5,142,974	238,163	82,874	5
31	-CUSTOMERS' DEPOSITS	8,918	261,476	9,801	3,467	0
32	AVERAGE NET INVESTMENT	1,054,681	19,620,243	1,132,103	857,651	54
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                     ACCESS CHARGE ANALYSIS SYSTEM

                                     ACCESS MONTHLY REPORT NO. 1
                                                TOTAL
STUDY AREA: SCKY
STUDY YEAR: 1984                                                                     RUN DATE: 02/29/84
                                                                                     RUN TIME: 20.13.19
                                   INTEREXCH-MSG     INTEREXC-PL        RESERVED
                                  ---------------  ---------------  ---------------

 1  GROSS SERVICE REVENUES                      0                0                0
 2  LESS-SETTLS. EXCEPT DRC                     0                0                0
 3  SERVICE REVENUES                            0                0                0
 4  MISC. OPERATING REVENUES                    0                0                0
 5  LESS-UNCOLLECTIBLES                         0                0                0
 6  TOTAL REVENUES                              0                0                0

 7  MAINTENANCE                                 0                0                0
 8  DEPRECIATION & AMORT.                       0                0                0
 9  TRAFFIC EXPENSES                            0                0                0
10  COML. & MKTG. EXPS.                         0                0                0
11  OPERATING RENTS                             0                0                0
12  RELIEF AND PENSIONS                         0                0                0
13  GENL. SVC. & LIC.                           0                0                0
14  OTHER GENL. EXPENSES                        0                0                0
15  MISC. INCOME CHARGES                        0                0                0
16  INT. ON CUSTOMERS' DEP.                     0                0                0
17  OTHER TAXES                                 0                0                0
18  DELAYED INC. CR. & CH.                      0                0                0

19  TOTAL EXPENSES & OTHER TAXES                0                0                0

20  FEDERAL TAXES ON INCOME                     0                0                0

21  TOTAL EXPENSES                              0                0                0

22  NET EARNINGS                                0                0                0


23  TELEPHONE PLANT IN SERVICE                  0                0                0
24  TELEPHONE PLANT UNDER CONST.                0                0                0
25  PROPERTY HELD FOR FUT TEL USE               0                0                0
26  SATELLITE EARTH STATIONS                    0                0                0
27  MATERIALS AND SUPPLIES                      0                0                0
28  CASH WORKING CAPITAL                        0                0                0
29  LESS-DEPRE. AND AMORT. RES.                 0                0                0
30      -ACC. DEFD. INC. TAXES                  0                0                0
31      -CUSTOMERS' DEPOSITS                    0                0                0

32  AVERAGE NET INVESTMENT                      0                0                0

33  EARNINGS RATIO                          .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCLA
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.53.54

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	273.670,557	0	7,717,566	0	14,359,043
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	273,670,557	0	7,717,566	0	14,359,043
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	1,532,982	0	25,458	0	97,128
6	TOTAL REVENUES	272,137,576	0	7,692,108	0	14,261,916
7	MAINTENANCE	59,340,849	0	1,799,205	0	3,401,000
8	DEPRECIATION & AMORT.	59,632,715	0	1,024,061	0	3,990,907
9	TRAFFIC EXPENSES	5,718,914	0	0	0	0
10	COML. & MKTG. EXPS.	13,822,093	0	2,493,257	0	329,600
11	OPERATING RENTS	3,270,967	0	20,975	0	27,676
12	RELIEF AND PENSIONS	14,130,929	0	427,536	0	627,217
13	GENL. SVC. & LIC.	2,588,969	0	88,383	0	132,139
14	OTHER GENL. EXPENSES	14,028,917	0	276,348	0	563,978
15	MISC. INCOME CHARGES	125,180	0	1,863	0	7,110
16	INT. ON CUSTOMERS' DEP.	228,999	0	3,254	0	12,414
17	OTHER TAXES	16,779,939	0	307,447	0	888,438
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	189,669,291	0	6,442,331	0	10,060,478
20	FEDERAL TAXES ON INCOME	27,437,914	0	396,022	0	1,510,904
21	TOTAL EXPENSES	217,107,205	0	6,838,352	0	11,571,382
22	NET EARNINGS	55,030,371	0	853,755	0	2,690,533
23	TELEPHONE PLANT IN SERVICE	614,180,590	0	8,968,847	0	33,317,683
24	TELEPHONE PLANT UNDER CONST.	13,225,904	0	67,274	0	90,367
25	PROPERTY HELD FOR FUT TEL USE	95,999	0	814	0	1,206
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	943,998	0	9,401	0	35,868
28	CASH WORKING CAPITAL	6,954,978	0	101,018	0	385,405
29	LESS-DEPRE. AND AMORT. RES.	118,503,984	0	1,133,199	0	5,626,351
30	-ACC. DEFD. INC. TAXES	81,326,736	0	1,257,251	0	6,889,124
31	-CUSTOMERS' DEPOSITS	3,959,988	0	55,765	0	212,833
32	AVERAGE NET INVESTMENT	431,610,761	0	6,696,119	0	21,102,221
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                    ACCESS CHARGE ANALYSIS SYSTEM

                                    ACCESS MONTHLY REPORT NO. 1
STUDY AREA: SCLA                              TOTAL
STUDY YEAR: 1984
                                                                                          RUN DATE: 02/29/84
                                                                                          RUN TIME: 19.53.54
                                    COMM LINE-IW     COMM LINE-BFP      LINE TERM      LOCAL SWITCH      INTERCEPT
                                  ---------------- ---------------- ---------------- ---------------- ----------------

 1  GROSS SERVICE REVENUES            27,243,246      117,090,917       16,041,597       17,368,993          227,511
 2  LESS-SETTLS. EXCEPT DRC                    0                0                0                0                0
 3  SERVICE REVENUES                  27,243,246      117,090,917       16,041,597       17,368,993          227,511
 4  MISC. OPERATING REVENUES                   0                0                0                0                0
 5  LESS-UNCOLLECTIBLES                  143,478          852,090          101,538          107,895              841
 6  TOTAL REVENUES                    27,099,767      116,238,827       15,940,059       17,261,098          226,671

 7  MAINTENANCE                        8,230,883       27,467,851        2,543,281        2,945,632           18,647
 8  DEPRECIATION & AMORT.              8,078,032       23,538,730        4,548,190        4,833,258           31,730
 9  TRAFFIC EXPENSES                           0                0          679,584          722,168           77,850
10  COML. & MKTG. EXPS.                  486,891        3,008,640          524,124          556,936            4,339
11  OPERATING RENTS                       43,656          738,745          640,732          680,995            8,288
12  RELIEF AND PENSIONS                1,436,576        5,423,071          667,058          751,048           20,189
13  GENL. SVC. & LIC.                    283,394          954,326          150,095          163,973            2,533
14  OTHER GENL. EXPENSES               1,082,728        4,939,264          644,984          706,041           12,080
15  MISC. INCOME CHARGES                  10,502           62,372            7,432            7,398               62
16  INT. ON CUSTOMERS' DEP.               18,339          108,911           12,978           13,791              107
17  OTHER TAXES                        1,454,093        7,772,126          931,974        1,002,049           11,788
18  DELAYED INC. CR. & CH.                     0                0                0                0                0

19  TOTAL EXPENSES & OTHER TAXES      21,125,094       74,014,037       11,350,433       12,383,788          187,613

20  FEDERAL TAXES ON INCOME            2,231,932       13,255,003        1,579,517        1,678,400           13,076

21  TOTAL EXPENSES                    23,357,026       87,269,040       12,929,950       14,062,188          200,689

22  NET EARNINGS                       3,742,741       28,969,787        3,010,109        3,198,910           25,952


23  TELEPHONE PLANT IN SERVICE        50,723,562      300,937,439       35,866,252       38,115,538          295,193
24  TELEPHONE PLANT UNDER CONST.          55,553        4,014,694        1,837,752        1,953,044           16,474
25  PROPERTY HELD FOR FUT TEL USE          1,930           19,378           13,334           14,176              315
26  SATELLITE EARTH STATIONS                   0                0                0                0                0
27  MATERIALS AND SUPPLIES                52,985          314,667           37,497           39,844              310
28  CASH WORKING CAPITAL                 569,327        3,381,120          402,907          428,131            3,335
29  LESS-DEPRE. AND AMORT. RES.       11,165,023       47,559,209        8,957,137        9,518,836           73,484
30       -ACC. DEFD. INC. TAXES       10,569,095       32,026,909        5,369,412        5,705,979           39,523
31       -CUSTOMERS' DEPOSITS            314,400        1,867,160          222,498          236,427            1,042

32  AVERAGE NET INVESTMENT            29,354,835      227,214,020       23,608,695       25,089,491          203,779

33  EARNINGS RATIO                         .1275            .1275            .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCLA
STUDY YEAR: 1934

RUN DATE: 02/29/84
RUN TIME: 19.53.54

		INFORMATH	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IN
1	GROSS SERVICE REVENUES	5,893,274	0	20,634,492	161,966	307,297
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	5,893,274	0	20,634,492	161,966	307,297
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	5,158	0	142,636	1,096	1,618
6	TOTAL REVENUES	5,888,116	0	20,491,856	160,871	305,678
7	MAINTENANCE	95,879	0	4,234,024	39,265	92,842
8	DEPRECIATION & AMORT.	150,869	0	5,039,939	45,016	91,118
9	TRAFFIC EXPENSES	3,395,988	0	50,802	0	0
10	COML. & MKTG. EXPS.	353,310	0	736,266	3,718	5,492
11	OPERATING RENTS	78,309	0	620,578	312	492
12	RELIEF AND PENSIONS	810,695	0	870,556	7,875	16,204
13	GENL. SVC. & LIC.	77,367	0	182,123	1,490	3,197
14	OTHER GENL. EXPENSES	406,791	0	870,631	6,362	12,213
15	MISC. INCOME CHARGES	378	0	10,441	80	118
16	INT. ON CUSTOMERS' DEP.	659	0	18,231	140	207
17	OTHER TAXES	263,307	0	1,290,738	10,021	16,402
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	5,633,553	0	13,932,329	113,480	238,285
20	FEDERAL TAXES ON INCOME	80,239	0	2,218,835	17,043	25,176
21	TOTAL EXPENSES	5,713,792	0	16,151,164	130,522	263,461
22	NET EARNINGS	174,324	0	4,340,692	30,348	42,217
23	TELEPHONE PLANT IN SERVICE	1,906,516	0	50,378,086	375,815	572,148
24	TELEPHONE PLANT UNDER CONST.	115,697	0	2,240,264	1,019	627
25	PROPERTY HELD FOR FUT TEL USE	1,760	0	16,360	14	22
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	1,905	0	52,674	405	598
28	CASH WORKING CAPITAL	20,467	0	565,926	4,347	6,422
29	LESS-DEPRE. AND AMORT. RES.	461,324	0	12,569,123	63,464	125,938
30	-ACC. DEFD. INC. TAXES	208,470	0	6,327,052	77,707	119,217
31	-CUSTOMERS' DEPOSITS	11,303	0	312,555	2,401	3,546
32	AVERAGE NET INVESTMENT	1,367,249	0	34,044,640	238,027	331,115
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCLA
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.53.54

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	1,337,475	32,933,829	1,043,791	11,305,008	4,554
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	1,337,475	32,933,829	1,043,791	11,305,008	4,554
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	9,755	44,290	0	0	0
6	TOTAL REVENUES	1,327,719	32,889,539	1,043,791	11,305,008	4,554
7	MAINTENANCE	314,254	7,835,946	166,541	75,595	3
8	DEPRECIATION & AMORT.	269,277	7,593,155	297,832	100,596	5
9	TRAFFIC EXPENSES	0	3,342	44,503	744,678	0
10	COML. & MKTG. EXPS.	33,105	328,738	34,320	4,923,786	369
11	OPERATING RENTS	8,432	244,798	41,951	115,026	2
12	RELIEF AND PENSIONS	61,682	1,384,948	43,682	1,582,952	439
13	GENL. SVC. & LIC.	10,883	377,138	9,829	152,027	92
14	OTHER GENL. EXPENSES	55,785	1,541,076	42,236	2,856,896	3,504
15	MISC. INCOME CHARGES	714	15,367	487	356	0
16	INT. ON CUSTOMERS' DEP.	1,247	37,249	850	622	0
17	OTHER TAXES	88,868	2,203,053	61,027	478,484	124
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	844,247	21,564,810	743,257	11,031,018	4,538
20	FEDERAL TAXES ON INCOME	151,754	4,100,896	103,429	75,685	4
21	TOTAL EXPENSES	996,001	25,665,707	846,686	11,106,703	4,541
22	NET EARNINGS	331,719	7,223,832	197,104	198,305	13
23	TELEPHONE PLANT IN SERVICE	3,445,283	84,866,523	2,348,571	2,060,004	132
24	TELEPHONE PLANT UNDER CONST.	45,967	2,529,005	120,337	137,822	8
25	PROPERTY HELD FOR FUT TEL USE	220	17,445	873	6,153	0
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	3,603	389,959	2,455	1,797	0
28	CASH WORKING CAPITAL	38,710	1,002,113	26,383	19,306	1
29	LESS-DEPRE. AND AMORT. RES.	544,290	19,626,976	586,527	468,073	31
30	-ACC. DEFD. INC. TAXES	366,402	11,847,960	351,605	171,016	11
31	-CUSTOMERS' DEPOSITS	21,377	672,630	14,569	10,661	1
32	AVERAGE NET INVESTMENT	2,601,714	56,657,508	1,545,917	1,555,331	99
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                         ACCESS CHARGE ANALYSIS SYSTEM

                                         ACCESS MONTHLY REPORT NO. 1
                                                    TOTAL
STUDY AREA: SCLA                                                                                 RUN DATE: 02/29/84
STUDY YEAR: 1984                                                                                 RUN TIME: 19.53.54

                                    INTEREXCH-MSG    INTEREXC-PL       RESERVED
                                   ---------------  ---------------  ---------------

  1  GROSS SERVICE REVENUES                      0                0                0
  2  LESS-SETTLS. EXCEPT DRC                     0                0                0
  3  SERVICE REVENUES                            0                0                0
  4  MISC. OPERATING REVENUES                    0                0                0
  5  LESS-UNCOLLECTIBLES                         0                0                0
  6  TOTAL REVENUES                              0                0                0

  7  MAINTENANCE                                 0                0                0
  8  DEPRECIATION & AMORT.                       0                0                0
  9  TRAFFIC EXPENSES                            0                0                0
 10  COML. & MKTG. EXPS.                         0                0                0
 11  OPERATING RENTS                             0                0                0
 12  RELIEF AND PENSIONS                         0                0                0
 13  GENL. SVC. & LIC.                           0                0                0
 14  OTHER GENL. EXPENSES                        0                0                0
 15  MISC. INCOME CHARGES                        0                0                0
 16  INT. ON CUSTOMERS' DEP.                     0                0                0
 17  OTHER TAXES                                 0                0                0
 18  DELAYED INC. CR. & CH.                      0                0                0

 19  TOTAL EXPENSES & OTHER TAXES                0                0                0

 20  FEDERAL TAXES ON INCOME                     0                0                0

 21  TOTAL EXPENSES                              0                0                0

 22  NET EARNINGS                                0                0                0


 23  TELEPHONE PLANT IN SERVICE                  0                0                0
 24  TELEPHONE PLANT UNDER CONST.                0                0                0
 25  PROPERTY HELD FOR FUT TEL USE               0                0                0
 26  SATELLITE EARTH STATIONS                    0                0                0
 27  MATERIALS AND SUPPLIES                      0                0                0
 28  CASH WORKING CAPITAL                        0                0                0
 29  LESS-DEPRE. AND AMORT. RES.                 0                0                0
 30       -ACC. DEFD. INC. TAXES                 0                0                0
 31       -CUSTOMERS' DEPOSITS                   0                0                0

 32  AVERAGE NET INVESTMENT                      0                0                0

 33  EARNINGS RATIO                          .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SCLA
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.16.36

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	9,147	2,451	6,696	854	396	6,442	7,692	7,718	2.82
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
CCMM LINE-CPE	33,831	12,728	21,102	2,691	1,511	10,060	14,262	14,359	5.25
COMM LINE-IW	51,403	22,049	29,355	3,743	2,232	21,125	27,100	27,243	9.95
COMM LINE-BFP	308,667	81,453	227,214	28,970	13,255	74,014	116,239	117,091	42.79
LINE TERM	38,158	14,549	23,609	3,010	1,580	11,350	15,940	16,042	5.86
LOCAL SWITCH	40,551	15,461	25,089	3,199	1,678	12,384	17,261	17,369	6.35
INTERCEPT	319	115	204	26	13	188	227	228	0.08
INFORMATN	2,048	681	1.367	174	80	5,634	5,888	5,893	2.15
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	53,253	19,209	34,045	4,341	2,219	13,932	20,492	20,634	7.54
DAL-CPE	382	144	238	30	17	113	161	162	0.06
DAL-IW	580	249	331	42	25	238	306	307	0.11
DAL-BFP	3,534	932	2,602	332	152	844	1,328	1.337	0.49
SPECIAL ACCESS	88,805	32,148	56,658	7,224	4,101	21,565	32,890	32,934	12.03
BIL&COL-MSG-REC	2,499	953	1,546	197	103	743	1,044	1,044	0.38
BIL&COL-MSG-OTH	2,225	670	1,555	198	76	11,031	11,305	11,305	4.13
BIL&COL PL	0	0	0	0	0	5	5	5	0.00
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	635,401	203,791	431,611	55,030	27,438	189,669	272,138	273.671	100.00

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SCTN
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.25.01

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	8,068	2,993	5,075	647	320	5,515	6,483	6,506	2.80
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	30,725	13,587	17,138	2,185	1,249	9,541	12,974	13,066	5.63
COMM LINE-IW	43,102	17,582	25,519	3,254	1,718	17,274	22,246	22,371	9.63
COMM LINE-BFP	246,265	83,877	162,388	20,704	9,784	55,950	86,439	87,154	37.53
LINE TERM	37,249	14,139	23,110	2,946	1,455	11,398	15,799	15,906	6.85
LOCAL SWITCH	44,279	16,807	27,471	3,503	1,729	14,006	19,238	19,364	8.34
INTERCEPT	569	210	359	46	22	520	587	509	0.25
INFORMATN	1,437	505	933	119	51	6,005	6,176	6,179	2.66
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	51,236	19,579	31,657	4,036	2,009	14,098	20,143	20,290	8.74
DAL-CPE	505	223	282	36	21	157	213	215	0.09
DAL-IW	709	289	420	54	28	284	366	368	0.16
DAL-BFP	4,104	1,398	2,707	345	163	927	1,436	1,448	0.62
SPECIAL ACCESS	67,715	26,155	41,561	5,299	3,177	16,650	25,125	25,167	10.84
BIL&COL-MSG-REC	1,833	696	1,137	145	72	561	778	778	0.33
BIL&COL-MSG-OTH	1,423	468	955	122	34	12,667	12,823	12,823	5.52
BIL&COL PL	0	0	0	0	0	5	5	5	0.00
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	539,219	198,508	340,712	43,441	21,831	165,559	230,830	232,227	100.00

ACCESS CHARGE ANALYSIS SYSTEM

STUDY AREA: SCTN
STUDY YEAR: 1984

ACCESS MONTHLY REPORT NO. 1
TOTAL

RUN DATE: 02/29/84
RUN TIME: 19.58.34

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	232,227,433	0	6,506,039	0	13,065,711
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	232,227,433	0	6,506,039	0	13,065,711
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	1,397,186	0	23,415	0	91,268
6	TOTAL REVENUES	230,830,248	0	6,482,624	0	12,974,443
7	MAINTENANCE	45,010,968	0	1,535,171	0	2,972,477
8	DEPRECIATION & AMORT.	47,437,392	0	934,460	0	3,010,970
9	TRAFFIC EXPENSES	6,308,334	0	0	0	0
10	COML. & MKTG. EXPS.	16,093,224	0	1,990,918	0	408,773
11	OPERATING RENTS	3,289,039	0	19,812	0	14,162
12	RELIEF AND PENSIONS	12,806,959	0	372,905	0	593,589
13	GENL. SVC. & LIC.	2,347,396	0	79,450	0	130,907
14	OTHER GENL. EXPENSES	14,347,251	0	262,655	0	615,618
15	MISC. INCOME CHARGES	172,589	0	2,603	0	10,147
16	INT. ON CUSTOMERS' DEP.	239,601	0	3,515	0	13,701
17	OTHER TAXES	17,506,102	0	313,680	0	970,264
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	165,558,056	0	5,518,190	0	9,540,689
20	FEDERAL TAXES ON INCOME	21,830,679	0	320,365	0	1,240,735
21	TOTAL EXPENSES	187,389,525	0	5,835,555	0	10,789,343
22	NET EARNINGS	43,440,722	0	647,069	0	2,185,100
23	TELEPHONE PLANT IN SERVICE	532,297,833	0	8,022,204	0	30,545,181
24	TELEPHONE PLANT UNDER CONST.	5,360,623	0	30,456	0	121,301
25	PROPERTY HELD FOR FUT TEL USE	86,685	0	491	0	922
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	150,548	0	-4,835	0	-18,047
28	CASH WORKING CAPITAL	1,323,773	0	19,634	0	76,530
29	LESS-DEPRE. AND AMORT. RES.	119,165,295	0	1,526,559	0	6,673,754
30	-ACC. DEFD. INC. TAXES	75,232,393	0	1,406,758	0	6,680,352
31	-CUSTOMERS' DEPOSITS	4,110,[illegible]	0	59,782	0	233,023
32	AVERAGE NET INVESTMENT	340,711,554	0	5,075,051	0	17,138,039
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                              ACCESS CHARG  ANALYSIS SYSTEM

                                            ACCESS MONTHLY REPORT NO. I
                                                       TOTAL
STUDY AREA: SCTN                                                                                         RUN DATE: 02/29/84
STUDY YEAR: 1984                                                                                         PUN TIME: 19.58.34

                                         COMM LINE-IW     COMM LINE-BFP       LINE TERM    LOCAL SWITCH       INTERCEPT
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  1  GROSS SERVICE REVENUES                22,371,103       87,153,955       15,905,581       19,364,107          588,904
  2  LESS-SETTLS. EXCEPT DRC                        0                0                0                0                0
  3  SERVICE REVENUES                      22,371,103       87,153,955       15,905,581       19,364,107          588,904
  4  MISC. OPERATING REVENUES                       0                0                0                0                0
  5  LESS-UNCOLLECTIBLES                      125,535          715,097          106,346          126,401            1,595
  6  TOTAL REVENUES                        22,245,568       86,438,858       15,799,235       19,237,706          587,310

  7  MAINTENANCE                            6,680,781       18,270,166        2,414,061        3,207,042           32,868
  8  DEPRECIATION & AMORT.                  5,926,842       16,483,259        4,225,521        5,022,697           55,160
  9  TRAFFIC EXPENSES                               0                0          690,724          821,013          263,779
 10  COML. & MKTG. EXPS.                      562,250        3,348,675          744,009          884,316           11,156
 11  OPERATING RENTS                           20,653        1,143,340          476,589          566,603            9,292
 12  RELIEF AND PENSIONS                    1,277,407        3,906,728          735,949          939,245           68,215
 13  GENL. SVC. & LIC.                        241,470          741,723          156,631          192,893            7,429
 14  OTHER GENL. EXPENSES                   1,066,529        4,478,941          783,169          961,630           38,075
 15  MISC. INCOME CHARGES                      13,957           79,506           11,824           14,053              177
 16  INT. ON CUSTOMERS' DEP.                   18,845          107,347           15,964           18,975              239
 17  OTHER TAXES                            1,465,539        7,390,730        1,143,283        1,377,217           33,308
 18  DELAYED INC. CR. & CH.                         0                0                0                0                0

 19  TOTAL EXPENSES & OTHER TAXES          17,274,273       55,950,416       11,397,725       14,005,683          519,778

 20  FEDERAL TAXES ON INCOME                1,717,582        9,783,998        1,455,035        1,729,428           21,817

 21  TOTAL EXPENSES                        18,991,855       65,734,414       12,852,760       15,735,112          541,595

 22  NET EARNINGS                           3,253,713       20,704,443        2,946,475        3,502,594           45,715


 23  TELEPHONE PLANT IN SERVICE            42,962,662      244,453,123       36,374,587       43,239,370          549,852
 24  TELEPHONE PLANT UNDER CONST.              58,244        1,337,125          795,112          945,330           17,023
 25  PROPERTY HELD FOR FUT TEL USE              1,351           22,368           11,800           14,034              408
 26  SATELLITE EARTH STATIONS                       0                0                0                0                0
 27  MATERIALS AND SUPPLIES                   -25,923         -147,667          -21,960          -26,102             -329
 28  CASH WORKING CAPITAL                     105,264          599,626           89,174          105,990            1,337
 29  LESS-DEPRE. AND AMORT. RES.            7,443,813       55,168,907        8,149,450        9,687,633          129,503
 30       -ACC. DEFD. INC. TAXES            9,817,956       26,852,029        5,718,132        6,796,940           76,162
 31       -CUSTOMERS' DEPOSITS                320,513        1,825,764          271,520          322,724            4,071

 32  AVERAGE NET INVESTMENT                25,519,317      162,387,795       23,109,610       27,471,326          358,545

 33  EARNINGS RATIO                             .1275            .1275            .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCTN
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.58.34

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IW
1	GROSS SERVICE REVENUES	6,179,494	0	20,290,038	214,870	367,900
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	6,179,494	0	20,290,038	214,870	367,900
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	3,751	0	146,794	1,501	2,064
6	TOTAL REVENUES	6,175,744	0	20,143,245	213,369	365,835
7	MAINTENANCE	65,072	0	3,881,305	48,883	109,867
8	DEPRECIATION & AMORT.	100,412	0	4,723,437	62,673	97,469
9	TRAFFIC EXPENSES	3,755,113	0	82,297	0	0
10	COML. & MKTG. EXPS.	361,739	0	1,026,998	6,722	9,246
11	OPERATING RENTS	32,015	0	619,697	233	340
12	RELIEF AND PENSIONS	885,903	0	931,768	9,762	21,007
13	GENL. SVC. & LIC.	87,377	0	191,635	2,153	3,971
14	OTHER GENL. EXPENSES	431,849	0	1,048,385	10,124	17,539
15	MISC. INCOME CHARGES	417	0	16,322	167	230
16	INT. ON CUSTOMERS' DEP.	563	0	22,039	225	310
17	OTHER TAXES	285,029	0	1,554,390	15,956	24,101
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	6,005,490	0	14,098,274	156,898	284,081
20	FEDERAL TAXES ON INCOME	51,317	0	2,008,686	20,536	28,246
21	TOTAL EXPENSES	6,056,807	0	16,106,960	177,434	312,327
22	NET EARNINGS	118,937	0	4,036,285	35,935	53,508
23	TELEPHONE PLANT IN SERVICE	1,369,550	0	50,208,615	502,325	706,534
24	TELEPHONE PLANT UNDER CONST.	63,611	0	920,048	1,996	958
25	PROPERTY HELD FOR FUT TEL USE	1,931	0	14,950	15	22
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	-775	0	-30,272	-310	-426
28	CASH WORKING CAPITAL	3,145	0	123,104	1,259	1,731
29	LESS-DEPRE. AND AMORT. RES.	349,069	0	12,467,764	109,752	122,416
30	-ACC. DEFD. INC. TAXES	145,980	0	6,736,709	109,860	161,459
31	-CUSTOMERS' DEPOSITS	9,576	0	374,838	3,832	5,271
32	AVERAGE NET INVESTMENT	932,837	0	31,657,135	281,840	419,673
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCTN
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.58.34

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	1,447,504	25,166,728	777,661	12,822,662	5,175
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	1,447,504	25,166,728	777,661	12,822,662	5,175
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	11,919	41,500	0	0	0
6	TOTAL REVENUES	1,435,585	25,125,229	777,661	12,822,662	5,175
7	MAINTENANCE	304,220	5,326,389	118,824	43,839	1
8	DEPRECIATION & AMORT.	274,493	5,453,972	207,989	58,007	4
9	TRAFFIC EXPENSES	0	0	33,999	661,408	0
10	COML. & MKTG. EXPS.	53,383	431,186	36,621	6,216,784	457
11	OPERATING RENTS	19,054	302,904	23,457	40,808	1
12	RELIEF AND PENSIONS	64,400	1,083,940	36,225	1,879,343	574
13	GENL. SVC. & LIC.	12,287	306,749	7,710	184,894	116
14	OTHER GENL. EXPENSES	73,483	1,497,838	38,549	3,019,018	3,846
15	MISC. INCOME CHARGES	1,325	21,004	582	274	0
16	INT. ON CUSTOMERS' DEP.	1,789	34,934	786	378	0
17	OTHER TAXES	122,979	2,190,677	56,274	562,429	165
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	927,415	16,649,672	561,816	12,667,174	5,163
20	FEDERAL TAXES ON INCOME	163,075	3,176,544	71,618	33,684	2
21	TOTAL EXPENSES	1,090,490	19,826,216	632,634	12,700,858	5,165
22	NET EARNINGS	345,095	5-299,013	145,028	121,803	10
23	TELEPHONE PLANT IN SERVICE	4,074,239	66,165,277	1,790,392	1,333,816	108
24	TELEPHONE PLANT UNDER CONST.	22,265	923,273	39,133	84,662	7
25	PROPERTY HELD FOR FUT TEL USE	372	14,369	581	2,878	0
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	-2,461	432,045	-1,081	-508	0
28	CASH WORKING CAPITAL	9,994	100,531	4,389	2,064	0
29	LESS-DEPRE. AND AMORT. RES.	919,639	15,648,934	401,120	366,873	29
30	-ACC. DEFD. INC. TAXES	447,708	9,876,450	281,457	94,432	8
31	-CUSTOMERS' DEPOSITS	30,431	629,224	13,364	6,206	0
32	AVERAGE NET INVESTMENT	2,706,631	41,560,834	1,137,472	955,321	78
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                        ACCESS CHARGE ANALYSIS SYSTEM

STUDY AREA: SCTN                        ACCESS MONTHLY REPORT NO. 1
STUDY YEAR: 1984                                  TOTAL
                                                                                    RUN DATE: 02/29/84
                                                                                    RUN TIME: 19.58.34
                                    INTEREXCH-MSG    INTEREXC-PL       RESERVED
                                    ---------------  ---------------  ---------------
 1  GROSS SERVICE REVENUES                       0                0                0
 2  LESS-SETTLS. EXCEPT DRC                      0                0                0
 3  SERVICE REVENUES                             0                0                0
 4  MISC. OPERATING REVENUES                     0                0                0
 5  LESS-UNCOLLECTIBLES                          0                0                0
 6  TOTAL REVENUES                               0                0                0

 7  MAINTENANCE                                  0                0                0
 8  DEPRECIATION & AMORT.                        0                0                0
 9  TRAFFIC EXPENSES                             0                0                0
10  COML. & MKTG. EXPS.                          0                0                0
11  OPERATING RENTS                              0                0                0
12  RELIEF AND PENSIONS                          0                0                0
13  GENL. SVC. & LIC.                            0                0                0
14  OTHER GENL. EXPENSES                         0                0                0
15  MISC. INCOME CHARGES                         0                0                0
16  INT. ON CUSTOMERS' DEP.                      0                0                0
17  OTHER TAXES                                  0                0                0
18  DELAYED INC. CR. & CH.                       0                0                0

19  TOTAL EXPENSES & OTHER TAXES                 0                0                0

20  FEDERAL TAXES ON INCOME                      0                0                0

21  TOTAL EXPENSES                               0                0                0

22  NET EARNINGS                                 0                0                0

23  TELEPHONE PLANT IN SERVICE                   0                0                0
24  TELEPHONE PLANT UNDER CONST.                 0                0                0
25  PROPERTY HELD FOR FUT TEL USE                0                0                0
26  SATELLITE EARTH STATIONS                     0                0                0
27  MATERIALS AND SUPPLIES                       0                0                0
28  CASH WORKING CAPITAL                         0                0                0
29  LESS-DEPRE. AND AMORT. RES.                  0                0                0
30      -ACC. DEFD. INC. TAXES                   0                0                0
31      -CUSTOMERS' DEPOSITS                     0                0                0

32  AVERAGE NET INVESTMENT                       0                0                0

33  EARNINGS RATIO                           .1275            .1275            .1275
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ACCESS CHARGE ANALYSIS SYSTEM

ACCESS REVENUE REQUIREMENT SUMMARY

TOTAL (000)

STUDY AREA: SCMS
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 19.41.52

COST CATEGORIES	TOTAL INVEST	RESERVES DEF TAX CUST DEP	AVERAGE NET INVEST	NET EARNINGS	FED INCOME TAXES	EXP. & OTHER TAXES	TOTAL REV REQ	GROSS SERV. REV REQ	CAT REV REQ AS % TOT
LIMITED PAY TEL	0	0	0	0	0	0	0	0	0.00
COMM LINE-PAY	5,819	1,999	3,819	487	238	3,716	4,441	4,452	2.62
COMM LINE-U.S.F	0	0	0	0	0	0	0	0	0.00
COMM LINE-CPE	19,100	8,880	10,220	1,303	807	5,874	7,985	8,023	4.73
COMM LINE-IW	26,870	11,500	15,370	1,960	1,121	11,842	14,923	14,976	8.82
COMM LINE-BFP	216,384	65,998	150,387	19,174	8,878	51,267	79,319	79,745	46.99
LINE TERM	25,311	9,950	15,361	1,959	1,004	6,755	9,717	9,765	5.75
LOCAL SWITCH	29,235	11,493	17,742	2,262	1,160	7,819	11,241	11,297	6.66
INTERCEPT	215	77	138	18	9	53	79	79	0.05
INFORMATN	1,178	372	807	103	43	4,480	4,626	4,629	2.73
RESERVED	0	0	0	0	0	0	0	0	0.00
LOCAL TRANSPORT	30,117	10,898	19,219	2,450	1,201	7,687	11,338	11,396	6.72
DAL-CPE	241	112	129	16	10	74	101	101	0.06
DAL-IW	339	145	194	25	14	149	188	189	0.11
DAL-BFP	2,763	843	1,920	245	113	652	1,010	1,016	0.60
SPECIAL ACCESS	46,780	17,716	29,065	3,706	2,031	11,109	16,846	16,873	9.94
BIL&COL-MSG-REC	1,360	535	825	105	54	363	522	522	0.31
BIL&COL-MSG-OTH	1,092	277	815	104	32	6,502	6,637	6,637	3.91
BIL&COL PL	0	0	0	0	0	4	4	4	0.00
INTEREXCH-MSG	0	0	0	0	0	0	0	0	0.00
INTEREXC-PL	0	0	0	0	0	0	0	0	0.00
RESERVED	0	0	0	0	0	0	0	0	0.00
TOTAL INTERSTATE	406,804	140,793	266,010	33,916	16,716	118,347	168,979	169,705	100.00

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCMS
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.26.39

		TOTAL INTERSTATE	LIMITED PAY TEL	COMM LINE-PAY	COMM LINE-USF	COMM LINE-CPE
1	GROSS SERVICE REVENUES	169,704,841	0	4,452,134	0	8,023,252
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	169,704,841	0	4,452,134	0	8,023,252
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	725,898	0	11,413	0	38,677
6	TOTAL REVENUES	168,978,943	0	4,440,721	0	7,984,574
7	MAINTENANCE	35,914,443	0	1,179,025	0	2,130,943
8	DEPRECIATION & AMORT.	35,416,029	0	573,641	0	2,210,945
9	TRAFFIC EXPENSES	4,310,436	0	0	0	0
10	COML. & MKTG. EXPS.	7,137,279	0	1,193,611	0	133,903
11	OPERATING RENTS	3,618,012	0	33,989	0	17,779
12	RELIEF AND PENSIONS	8,684,671	0	277,393	0	390,086
13	GENL. SVC. & LIC.	1,673,566	0	51,530	0	78,365
14	OTHER GENL. EXPENSES	9,902,518	0	192,468	0	355,408
15	MISC. INCOME CHARGES	162,977	0	2,328	0	7,891
16	INT. ON CUSTOMERS' DEP.	132,796	0	1,835	0	6,220
17	OTHER TAXES	11,394,356	0	209,731	0	542,835
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	118,347,084	0	3,715,551	0	5,874,374
20	FEDERAL TAXES ON INCOME	16,715,545	0	238,189	0	807,166
21	TOTAL EXPENSES	135,062,628	0	3,953,741	0	6,681,540
22	NET EARNINGS	33,916,315	0	486,980	0	1,303,034
23	TELEPHONE PLANT IN SERVICE	394,415,149	0	5,735,914	0	18,931,594
24	TELEPHONE PLANT UNDER CONST.	10,924,851	0	64,068	0	107,781
25	PROPERTY HELD FOR FUT TEL USE	131,505	0	1,438	0	1,801
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	476,447	0	4,979	0	16,873
28	CASH WORKING CAPITAL	855,641	0	12,233	0	41,454
29	LESS-DEPRE. AND AMORT. RES.	90,773,900	0	1,168,264	0	4,961,666
30	-ACC. DEFD. INC. TAXES	47,772,809	0	800,021	0	3,813,268
31	-CUSTOMERS' DEPOSITS	2,246,569	0	30,895	0	104,694
32	AVERAGE NET INVESTMENT	266,010,316	0	3,819,453	0	10,219,874
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCMS
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.26.39

		COMM LINE-IW	COMM LINE-BFP	LINE TERM	LOCAL SWITCH	INTERCEPT
1	GROSS SERVICE REVENUES	14,976,410	79,744,922	9,765,449	11,296,747	79,206
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	14,976,410	79,744,922	9,765,449	11,296,747	79,206
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	53,716	425,425	48,115	55,574	411
6	TOTAL REVENUES	14,922,694	79,319,497	9,717,333	11,241,172	78,794
7	MAINTENANCE	5,277,617	17,551,750	1,616,760	1,880,293	11,660
8	DEPRECIATION & AMORT.	3,643,548	16,849,922	2,454,852	2,835,726	17,408
9	TRAFFIC EXPENSES	0	0	413,183	477,316	3,471
10	COML. & MKTG. EXPS.	185,968	1,549,393	330,133	381,313	2,823
11	OPERATING RENTS	27,654	1,919,161	252,766	291,794	4,268
12	RELIEF AND PENSIONS	942,997	3,405,061	424,056	491,992	3,070
13	GENL. SVC. & LIC.	161,234	669,628	89,622	103,762	693
14	OTHER GENL. EXPENSES	710,875	3,457,803	498,448	576,937	3,631
15	MISC. INCOME CHARGES	10,959	86,791	9,816	11,338	84
16	INT. ON CUSTOMERS' DEP.	8,638	68,414	7,738	8,937	66
17	OTHER TAXES	872,527	5,709,000	657,335	759,890	5,455
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	11,842,018	51,266,922	6,754,708	7,819,297	52,630
20	FEDERAL TAXES ON INCOME	1,121,015	8,878,291	1,004,124	1,159,790	8,586
21	TOTAL EXPENSES	12,963,033	60,145,214	7,758,831	8,979,087	61,217
22	NET EARNINGS	1,959,661	19,174,283	1,958,502	2,262,085	17,577
23	TELEPHONE PLANT IN SERVICE	26,755,559	211,318,630	23,913,450	27,621,004	204,315
24	TELEPHONE PLANT UNDER CONST.	30,136	4,386,743	1,308,231	1,511,198	9,394
25	PROPERTY HELD FOR FUT TEL USE	2,851	37,376	16,639	19,198	420
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	23,433	185,587	20,990	24,244	179
28	CASH WORKING CAPITAL	57,572	455,964	51,569	59,564	441
29	LESS-DEPRE. AND AMORT. RES.	5,573,995	45,455,981	6,220,974	7,185,763	49,421
30	-ACC. DEFD. INC. TAXES	5,780,266	19,390,219	3,590,864	4,157,168	26,352
31	-CUSTOMERS' DEPOSITS	145,402	1,151,565	130,241	150,431	1,114
32	AVERAGE NET INVESTMENT	15,369,888	150,336,535	15,360,801	17,741,844	137,863
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCMS
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.26.39

		INFORMATN	RESERVED	LOCAL TRANSPORT	DAL-CPE	DAL-IN
1	GROSS SERVICE REVENUES	4,628,514	0	11,395,915	101,186	188,877
2	LESS-SETTLS. EXCEPT ORC	0	0	0	0	0
3	SERVICE REVENUES	4,628,514	0	11,395,915	101,186	188,877
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	2,069	0	57,531	488	677
6	TOTAL REVENUES	4,626,445	0	11,338,385	100,699	188,200
7	MAINTENANCE	48,189	0	2,228,026	26,075	66,559
8	DEPRECIATION & AMORT.	73,336	0	2,536,254	27,884	45,951
9	TRAFFIC EXPENSES	2,844,594	0	45,536	8	0
10	COML. & MKTG. EXPS.	154,206	0	394,737	1,689	2,345
11	OPERATING RENTS	37,224	0	537,341	224	349
12	RELIEF AND PENSIONS	668,534	0	469,406	4,920	11,893
13	GENL. SVC. & LIC.	62,611	0	101,602	988	2,033
14	OTHER GENL. EXPENSES	370,290	0	577,749	4,482	8,965
15	MISC. INCOME CHARGES	422	0	11,737	100	138
16	INT. ON CUSTOMERS' DEP.	313	0	9,252	78	109
17	OTHER TAXES	220,693	0	774,854	6,846	11,004
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	4,480,433	0	7,687,293	74,086	149,347
20	FEDERAL TAXES ON INCOME	43,173	0	1,200,621	10,180	14,138
21	TOTAL EXPENSES	4,523,606	0	8,887,915	84,265	163,485
22	NET EARNINGS	102,839	0	2,450,470	16,433	24,715
23	TELEPHONE PLANT IN SERVICE	1,130,244	0	28,580,290	238,759	337,432
24	TELEPHONE PLANT UNDER CONST.	40,770	0	1,424,205	1,359	369
25	PROPERTY HELD FOR FUT TEL USE	4,115	0	18,062	23	36
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	902	0	25,097	213	296
28	CASH WORKING CAPITAL	2,217	0	61,661	523	726
29	LESS-DEPRE. AND AMORT. RES.	249,509	0	7,088,665	62,575	70,297
30	-ACC. DEFD. INC. TAXES	116,564	0	3,653,550	48,092	72,899
31	-CUSTOMERS' DEPOSITS	5,600	0	155,727	1,320	1,834
32	AVERAGE NET INVESTMENT	806,577	0	19,219,372	128,889	193,848
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

ACCESS CHARGE ANALYSIS SYSTEM

ACCESS MONTHLY REPORT NO. 1
TOTAL

STUDY AREA: SCMS
STUDY YEAR: 1984

RUN DATE: 02/29/84
RUN TIME: 20.26.39

		DAL-BFP	SPECIAL ACCESS	BIL-MSG-REC	BIL-MSG-OTH	BIL-PL
1	GROSS SERVICE REVENUES	1,015,798	16,872,587	522,225	6,637,417	4,204
2	LESS-SETTLS. EXCEPT DRC	0	0	0	0	0
3	SERVICE REVENUES	1,015,798	16,872,587	522,225	6,637,417	4,204
4	MISC. OPERATING REVENUES	0	0	0	0	0
5	LESS-UNCOLLECTIBLES	5,433	26,368	0	0	0
6	TOTAL REVENUES	1,010,365	16,846,220	522,225	6,637,417	4,204
7	MAINTENANCE	223,915	3,559,768	86,892	25,369	1
8	DEPRECIATION & AMORT.	215,100	3,760,869	131,936	38,654	3
9	TRAFFIC EXPENSES	0	0	22,208	504,129	0
10	COML. & MKTG. EXPS.	18,808	249,666	17,741	2,520,753	189
11	OPERATING RENTS	24,502	404,618	13,575	52,766	2
12	RELIEF AND PENSIONS	43,159	653,121	22,791	875,805	389
13	GENL. SVC. & LIC.	8,515	246,576	4,817	91,467	122
14	OTHER GENL. EXPENSES	43,346	958,524	26,739	2,113,432	3,370
15	MISC. INCOME CHARGES	1,108	19,430	528	309	0
16	INT. ON CUSTOMERS' DEP.	874	19,643	416	243	0
17	OTHER TAXES	72,806	1,236,896	35,326	279,041	117
18	DELAYED INC. CR. & CH.	0	0	0	0	0
19	TOTAL EXPENSES & OTHER TAXES	652,133	11,109,110	363,018	6,501,970	4,192
20	FEDERAL TAXES ON INCOME	113,274	2,031,359	53,961	31,574	1
21	TOTAL EXPENSES	765,507	13,140,469	416,979	6,533,545	4,194
22	NET EARNINGS	244,858	3,705,750	105,246	103,872	10
23	TELEPHONE PLANT IN SERVICE	2,698,384	44,596,818	1,285,095	1,059,560	102
24	TELEPHONE PLANT UNDER CONST.	56,042	1,890,467	70,310	23,763	2
25	PROPERTY HELD FOR FUT TEL USE	475	21,970	893	6,207	1
26	SATELLITE EARTH STATIONS	0	0	0	0	0
27	MATERIALS AND SUPPLIES	2,378	169,497	1,128	660	0
28	CASH WORKING CAPITAL	5,823	101,503	2,771	1,622	0
29	LESS-DEPRE. AND AMORT. RES.	580,485	11,569,247	334,326	202,712	19
30	-ACC. DEFD. INC. TAXES	247,447	5,804,355	193,418	70,322	6
31	-CUSTOMERS' DEPOSITS	14,705	341,945	6,999	4,095	0
32	AVERAGE NET INVESTMENT	1,920,456	29,064,708	825,455	814,682	79
33	EARNINGS RATIO	.1275	.1275	.1275	.1275	.1275

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                                        ACCESS CHARGE ANALYSIS SYSTEM

                                        ACCESS MONTHLY REPORT NO. 1
STUDY AREA: SCMS                                   TOTAL
STUDY YEAR: 1984                                                                       RUN DATE: 02/29/84
                                                                                       RUN TIME: 20.26.39
                                     INTEREXCH-MSG    INTEREXC-PL      RESERVED
                                     -------------    -----------    ------------
 1  GROSS SERVICE REVENUES                      0               0               0
 2  LESS-SETTLS. EXCEPT DRC                     0               0               0
 3  SERVICE REVENUES                            0               0               0
 4  MISC. OPERATING REVENUES                    0               0               0
 5  LESS-UNCOLLECTIBLES                         0               0               0
 6  TOTAL REVENUES                              0               0               0

 7  MAINTENANCE                                 0               0               0
 8  DEPRECIATION & AMORT.                       0               0               0
 9  TRAFFIC EXPENSES                            0               0               0
10  COML. & MKTG. EXPS.                         0               0               0
11  OPERATING RENTS                             0               0               0
12  RELIEF AND PENSIONS                         0               0               0
13  GENL. SVC. & LIC.                           0               0               0
14  OTHER GENL. EXPENSES                        0               0               0
15  MISC. INCOME CHARGES                        0               0               0
16  INT. ON CUSTOMERS' DEP.                     0               0               0
17  OTHER TAXES                                 0               0               0
18  DELAYED INC. CR. & CH.                      0               0               0

19  TOTAL EXPENSES & OTHER TAXES                0               0               0

20  FEDERAL TAXES ON INCOME                     0               0               0

21  TOTAL EXPENSES                              0               0               0

22  NET EARNINGS                                0               0               0


23  TELEPHONE PLANT IN SERVICE                  0               0               0
24  TELEPHONE PLANT UNDER CONST.                0               0               0
25  PROPERTY HELD FOR FUT TEL USE               0               0               0
26  SATELLITE EARTH STATIONS                    0               0               0
27  MATERIALS AND SUPPLIES                      0               0               0
28  CASH WORKING CAPITAL                        0               0               0
29  LESS-DEPRE. AND AMORT. RES.                 0               0               0
30      -ACC. DEFD. INC. TAXES                  0               0               0
31      -CUSTOMERS' DEPOSITS                    0               0               0

32  AVERAGE NET INVESTMENT                      0               0               0

33  EARNINGS RATIO                          .1275           .1275           .1275
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